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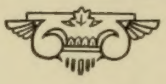

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THESIS

A Comparison of Unemployment Insurance in Great Britain, Germany, and the United States

by

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(S. B. Simmons College 1929)

submitted in partial fulfillment of
the requirements for the degree of

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CHAPTER I

I N T R O D U C T I O N

The insecurity of the worker under our modern economic organization is, in my opinion, the greatest problem of the world today. Old age, sickness, industrial accidents, and unemployment all contribute to make the lot of the great majority of people one of extreme hazard and insecurity. Of these threats to security, unemployment is the biggest problem of all. Its effects are far-reaching. The unemployed individual suffers physical hardship, loss of courage, and loss of self-respect; in time he is likely to become completely demoralized in spirit and to become one of the unemployables rather than the unemployed. Not only does the individual suffer dire consequences from unemployment; society as a whole reaps the toll in ruined and unhappy lives, in weakened future generations, in large groups of unemployables, in increased crime and lawlessness, and in dissatisfaction with present social and economic organization. Unemployment, with its effects on society as a whole, can no longer be looked upon as a problem to be met solely by the individual. The individual has little control over the hazard of loss of employment today.

William S. Knudsen, president of General Motors Corporation, announced a lay-off of 30,000 workers as of

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January 1, 1938, as a result of the business recession.[1] It is evident from the fact that 30,000 workers can be laid off at one time in one corporation that loss of employment is not a problem which can be met by the individual.

No longer can unemployment be considered a temporary problem in any country. The experience of Great Britain and Germany since the World War, and of the United States since the depression beginning in 1929, has indicated that under our modern economic system there will always be a large number of unemployed people. Here in the United States, in the recent census of the unemployed, 7,822,912 people were registered as totally unemployed as of November 1, 1937. The test census, taken by means of a house to house canvass covering more than 1 1/2 per cent of the population to appraise the correctness of the census, indicated that the figure should be nearer 11,000,000 able-bodied persons unemployed and desiring work.[2]

Many methods of solving the problem of unemployment have been suggested. Among these are plans for preventing unemployment and for curing its causes by the stabilization of individual businesses, by the stabilization of business as a whole, by planning production, by shortening working hours, and by embarking upon public works projects. Every means possible for preventing and reducing unemployment and for stabilizing employment should be used. It is

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[1]Boston Globe, December 28, 1937, p. 4.
[2]Boston Herald, January 2, 1938, p. 1.

unlikely, however, that any method or combination of methods will ever succeed in wiping out unemployment entirely. Authorities agree that unemployment is inherent in our modern competitive industrial system. The problem of unemployment, therefore, is one which cannot be solved by preventive methods alone. The principal approach to the problem, as long as unemployment cannot be eradicated, must be along the lines of providing some form of security to the worker during periods of unemployment as a right, not as charity. Social insurance is one means of providing such security for periods of unemployment. I have chosen unemployment insurance as the subject matter of this study in the belief that it can be and should be one of the major methods of attacking the problem of unemployment here in the United States.

The purpose of this study is to determine whether unemployment insurance has been successful in helping to meet the unemployment problem in Great Britain and Germany, and to analyze recent unemployment insurance legislation in the United States in the light of British and German Experience.

The United States has been slow in adopting legislation to meet the problem of unemployment. With the passage of the Social Security Act in 1935, a step toward providing security to workers against loss of employment has been taken. This act does not provide a national

unemployment insurance system. The purpose of certain sections of the act is to encourage the individual states to pass unemployment insurance compensation laws. This the states have done. In this study, it is proposed to compare the unemployment insurance legislation of Great Britain, Germany, and the United States, in order to determine whether our state legislation is headed in the right direction and along what lines we may expect development in unemployment insurance in this country in the future.

CHAPTER II

U N E M P L O Y M E N T I N S U R A N C E
I N G R E A T B R I T A I N

The Act of 1911

Although Germany was the pioneer in many branches of social legislation, it was Great Britain that took the first step in the field of national compulsory insurance legislation, a step which has influenced greatly the development of unemployment insurance legislation in other countries. Great Britain's first compulsory unemployment insurance legislation was enacted in 1911 as Part II of the National Insurance Act. Not until 1927, with the passage of the Employment Exchanges and Unemployment Insurance Law, did Germany follow in Great Britain's footsteps, and not until 1935 when the Social Security Act was passed, did the United States fall in line.

Prior to the passage of the Act of 1911, the able-bodied unemployed in Great Britain were provided for through local relief, granted under the Poor Laws, through trade union unemployment benefits, and by private charitable organizations. These methods of providing for the unemployed poor were unsatisfactory. Poor relief often failed to distinguish between the unemployed and the unemployable and was marked by periods of laxity and periods of repression in its

CHAPTER II

UNEMPLOYMENT INSURANCE IN GREAT BRITAIN

The Act of 1911

enforcement. It made paupers of recipients, disenfranchised them, and tended to demoralize the able-bodied poor. Trade union benefits were also inadequate for coping with the problem of the unemployed because trade union membership included such a small part of the working population, and union funds were extremely limited. The activities of the trade unions in this field were successful within their limited scope, however, and helped to lay a foundation for a national unemployment insurance system even though the unions were generally opposed to a state system. Private charity, no matter how carefully organized and administered, was and always must be, the last resort of self-respecting workers, and can never be classed as a desirable means of combatting destitution caused by unemployment.

The realization that the Poor Laws, the trade union benefits, and private charity were not satisfactory means of attacking the problem of the unemployed brought about Great Britain's great experiment in national compulsory unemployment insurance. Mary Barnet Gilson, in her book, "Unemployment Insurance in Great Britain," states that the immediate origin of Great Britain's system came in 1908 when Winston Churchill, president of the Board of Trade, asked Hubert Llewellyn Smith, Permanent Secretary of the Board of Trade, and William Beveridge, a member of the Central Unemployed Body for London, to devise a system of caring for the

unemployed "without the taint of charity."[1] This was a recognition of the fact that the worker should not be forced to depend on charity because of employment conditions over which he has very little control. An unemployment insurance system was therefore worked out by Smith and Beveridge in 1908-09. Legislation to put the plan into effect was not introduced in Parliament until 1911, however, because it was felt that the labor exchanges which were organized under the Labor Exchanges Act of 1909, should be fairly well established before unemployment insurance was introduced.

The labor exchanges are an integral part of the British unemployment insurance system, and thus it may be well to consider them at this point. The Labor Exchanges Act of 1909 provided for the organization of a network of labor exchanges throughout the country, under the control of the Board of Trade. In 1917, administration of the exchanges was transferred to the Ministry of Labor. The objectives[2] of the act were:

1. To provide an efficient placement service in order to decrease the waiting period between jobs.
2. To give to the unorganized classes of labor the type of placement assistance given to their members by the highly organized trade unions.

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[1]Gilson, Mary B., Unemployment Insurance in Great Britain, 1931, p. 41.

[2]Hill, A. C. C., Jr., and Lubin, Isador, The British Attack on Unemployment, 1934, p. 31.

3. To provide the government with statistical information in order that the extent of unemployment might be measured.

4. To provide a means of operating a compulsory unemployment insurance system.

5. To make provisions for dealing with casual labor.

From the foregoing objectives, it may be seen that the labor exchanges were originally designed for two main purposes--placement and unemployment insurance administration. Throughout Great Britain's series of unemployment insurance measures, the labor exchanges have remained as the agency through which benefits have been paid and rights to benefits ascertained. Thus it was necessary that the exchanges should have begun functioning before the unemployment insurance measure was introduced in Parliament.

The National Insurance Act was therefore passed in 1911, to become effective in July, 1912, over two years after the exchanges were organized. Part I of this act covered health insurance. Part II provided for national compulsory unemployment insurance and also for the subsidizing of voluntary unemployment insurance systems of trade unions and other associations of workers which paid unemployment benefits to members.

This first national compulsory unemployment insurance system was compulsory for workers over sixteen years of age in a limited number of trades. The trades included

were principally those in which the unemployment risk was high and covered building, shipbuilding, iron-founding, mechanical engineering, sawmilling, machine woodworking, and construction of railroads, docks, harbors, etc. The act covered approximately 2,500,000 workers.[1]

The system provided a benefit of 7s. a week for unemployed men and women after a waiting period of one week. The benefit was payable for not more than fifteen weeks in any twelve-month period. Moreover, the benefit was not to exceed one week's benefit to each five contributions.

In order to qualify for benefits, the insured worker had to prove that he had been employed in an insured trade not less than twenty-six weeks in each of the preceding five years, that he was able to work but unable to find suitable employment, that he had not exhausted his right to benefit, and that he had made his application for benefit in the prescribed form.

A worker was not required to accept a job which was vacant as a result of a trade dispute nor one in his district in which the wages or conditions of work were less favorable than he habitually obtained there, nor work in any other district which offered less favorable wages or conditions than those prevailing in that district. A worker who voluntarily left his employment without "just cause," or was discharged for misconduct was disqualified from benefit for

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[1]Gilson, Mary B., Unemployment Insurance in Great Britain, 1931, p. 42.

[1]Gibson, Mary B., Unemployment Insurance in Great Britain, 1931, p. 42.

six weeks from date of leaving. A worker unemployed because of a trade dispute in his place of employment was disqualified for the duration of the dispute.

The act provided for the appointment of insurance officers, located at the labor exchanges, to determine in each case whether the qualifications for benefit had been met. Appeal from the decision of the insurance officer might be made to the local courts of referees. The local court of referees rendered its decision to the chief insurance officer, and if the chief insurance officer disagreed with the decision, the court of referees might request a final decision from the Umpire. The Umpire was a central authority appointed by the Crown and his decision was final.

Contributions to the unemployment insurance fund came from employers, employees, and the government. This tripartite contributory form of insurance has been retained throughout Great Britain's successive insurance measures. Under the Act of 1911, the weekly contributions were: employers, 2 1/2d., employees, 2 1/2d., and the state, 1 2/3d.[1]

The act also provided a refund to the insured worker at the age of sixty of the amount of his contribution less the benefits received, with compound interest at 2 1/2 per cent, provided that contributions had been paid for at least five hundred weeks. An employer was also allowed a

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[1]Ibid., p. 43.

refund of one-third of his contributions for each workman he had employed steadily throughout the year.[1]

The Act of 1911 provided also for the subsidizing of voluntary insurance schemes of trade unions and other workers' associations. These associations, provided they met certain requirements, could pay benefits to members insured under the state system and be reimbursed by the state for the amounts that would be paid under the state scheme. The state also reimbursed such associations one-sixth of any unemployment benefits paid out, whether to insured or non-insured workers.

The Act of 1916

The Act of 1916 was passed in order to make provision for the many workers in the munitions trade who would become unemployed with the ending of the war. This act extended the coverage of unemployment insurance to all munitions workers and to the metals, chemicals, leather, and rubber industries, raising the total number of insured in 1916 to about 4,000,000.[2]

Operation up to 1920; the "dole."

Unemployment insurance met little difficulty in the period from 1911 to 1920. During the war there was very little unemployment and claims on the unemployment fund were small. When the Act of 1920 was passed, a fund of

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[1]Ibid., p. 43.
[2]Ibid., p. 44.

£22,000,000 had been accumulated.[1] The accumulation of this fund by 1920 was in part made possible because the emergency conditions following the signing of the armistice were not permitted to undermine the fund, but were taken care of through the "out-of-work donation." With the demobilization of soldiers and the releasing of thousands of workers due to the change from war to peace production, Great Britain was faced with the problem of caring for these soldiers and civilians until such time as they could find work. The problem was met by the emergency out-of-work donation scheme. Ex-service men and civilians unable to find work were allowed out-of-work benefits. The benefits for men were 29s. a week and for women 25s. An allowance of 6s. for the first child and 3s. for each additional child was also made.[2] The out-of-work donation was paid from the Exchequer, and was not a part of the unemployment insurance system. The out-of-work donation came to be known as the "dole," a term which has sometimes been incorrectly applied to unemployment insurance benefits. Unemployment insurance benefits are based on contributions--the "dole" was an outright donation by the state to meet emergency conditions. The out-of-work donations were put into effect on November 25, 1918, and were discontinued in November, 1919, for civilians, and in March, 1921, for ex-service men. During the period when

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[1]Hill, A. C. C., Jr., and Lubin, Isador, The British Attack on Unemployment, 1934, p. 214.

[2]Gilson, Mary B., Unemployment Insurance in Great Britain, 1931, p. 45.

the out-of-work donation or "dole" was in operation few claims were made on the unemployment insurance fund and thus it was possible for the fund to have accumulated a surplus of £22,000,000 by 1920.

Act of 1920

The National Industrial Conference held in the year 1919 recommended that the compulsory unemployment insurance system be extended to cover practically all workers sixteen years and over. The Act of 1920 was therefore passed and provided for the extension of the system to cover all workers over sixteen years of age with the exception of those employed in agriculture, private domestic service, in non-manual labor paying a remuneration of more than £250 a year, and employment as a teacher under certain conditions. The act also excepted employment by a public authority, a public utility, a railroad, and any employment coming under a superannuation fund established by act of Parliament. The system in 1920 was thus extended to cover about 11,000,000 workers.[1] Benefits under the Act of 1911 were 7s. The Act of 1920 raised the benefits to 15s. for men, 12s. for women, and half of these benefits for insured workers under eighteen years of age. The waiting period was reduced to three days. Benefits were payable for fifteen weeks in a year as under the Act of 1911, but the ratio of benefits to contributions was raised to one week for each six contributions, instead

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[1]Ibid., p. 46.

of one to five. The statutory conditions governing qualifications for benefit remained the same, and the provision for a refund at the age of sixty was retained.

The Act of 1920 permitted an industry to contract out of the state system provided that the benefits were at least as much as the state system. The state made no contribution to such private systems, and only two industries, commercial insurance and banking, took advantage of the provision.

Acts of 1921, 1924, 1927

Shortly after the passage of the Act of 1920, Great Britain was faced with a depression which threw out of work thousands who had only recently been brought under the unemployment insurance system and consequently had not been able to make the contributions required for eligibility to benefits. The workers covered by the Act of 1911 had built up sufficient contributions to see them through long periods of unemployment but these workers constituted less than one-third of the insured. The government was faced with the problem of turning over to poor relief those workers who could not meet the requirements with respect to contributions or of extending benefits without strict adherence to the eligibility provisions. Great Britain chose to stand by the principle that the unemployed able-bodied should not be forced to turn to charity. The government, in March, 1921,

therefore, passed an act extending sixteen additional weeks of benefit in the period March 3 to November 2, 1921, and sixteen additional weeks in the period November 3, 1921, to July 2, 1922. These additional benefits were granted without regard to the number of contributions made and the rule limiting the number of weeks of benefit to one week for each six contributions. In order to obtain this extended benefit, the insured worker had to prove that he was normally employed in an insured occupation, that he was "genuinely seeking whole-time employment, but unable to obtain such employment," and that he had been employed in an insured occupation for twenty weeks since December 1, 1919.[1]

The statutory benefits (those benefits payable in accordance with number of contributions) were at this time raised from fifteen weeks to twenty-six weeks and benefit rates were increased from 15s. to 20s. for men and from 12s. to 16s. for women.

The unemployment situation was so acute in 1921 that two further amending acts were passed. Six weeks more of extended benefit within each of the two special periods were permitted at the discretion of the Minister of Labor. Weekly rates of benefit were reduced and rates of contribution increased. Benefits for dependents were introduced for the first time in the third amending act, thus bringing into the system the principle of need. The acts of 1921

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[1]Ibid., p. 47.

also permitted the Treasury to make loans to the unemployment fund, and the amount to be so loaned has been increased steadily. Additional amendments prior to 1924 established additional special periods and provided additional benefits until a maximum of forty-four weeks of benefit in a fifty week period was allowed.

The Act of 1924 established thirty contributions in the two years preceding the benefit year as a condition for benefit, but this was not put into effect because it would have caused hardship to those who could not meet the requirement. Transitional periods were set again and again postponing the effect of the thirty contributions rule. The Act of 1924 also required for the first time that recipients of standard benefits (benefits based on contributions) should prove that they were "genuinely seeking work but unable to obtain suitable employment." This "genuinely seeking work" clause had first been applied in 1921 as a condition for receiving extended benefits (benefits not based on contributions).

The right of industries to contract out of the state system was suspended by the Act of 1924.

Throughout the period 1920-1927 most of the claims on the unemployment fund came from extended, rather than standard benefits, as most of the unemployed had never accumulated the required number of contributions or had exhausted their rights to standard benefits through long periods of

unemployment. Extended benefit was granted under the discretionary power of the Minister of Labor, but it came to be considered a right, just as standard benefit was a statutory right. Thus during the period 1920-1927, abnormal conditions existed, again and again amendments providing extended benefits were passed, and the Act of 1920 which provided for a definite relationship between contributions and benefits was never actually tried out.

The Act of 1927

The question of extended benefits had been the most pressing problem during the period 1920-1927, as evidenced by the series of amendments passed during that period having to do with the extension of benefits beyond those allowed under the Act of 1920. All through these years Great Britain had been faced actually with the problem of whether to pay relief out in the form of extended benefits or turn over the great mass of the unemployed to poor relief. The Trades Union Congress felt that benefits should be paid the worker throughout his period of unemployment without any relation to his contributions. The Confederation of Employers' Organizations, however, felt that unemployment insurance should be on a limited liability basis with benefits in a direct relationship to contributions. The Blanesburgh Committee, composed of representatives of all groups, was therefore appointed by the Minister of Labor in November,

1925, to consider what changes should be made in the law in the light of the experience of the unemployment insurance system up to date. The recommendations of this committee were in the main embodied in the Act of 1927, which went into effect in April, 1928.

The Act of 1927 covered all the workers included under the preceding acts, with the exception of workers sixty-five years of age and over. This group was removed from the unemployment insurance system because the contributory Pensions Act of 1925 covered this group and came into effect in January, 1928.

The main feature of the Act of 1927 was the abolishment of extended benefits. All benefits were standard and payable as a right, the Minister of Labor having no discretionary power over their payment. The benefits were payable practically without limit of time, as the one-in-six rule setting the relation between benefits and contributions, was abolished. As a matter of fact, it had already ceased to function under the extended benefits system. Eligibility for benefits under this act was dependent upon the payment of at least thirty contributions during the two years preceding the claim for benefits. Here again the law had to make allowance for the large numbers who would be excluded from benefit by this provision through having had a long siege of unemployment. A transitional period was thus

allowed for this group. This group was allowed during the transitional period to substitute for the thirty payments within the preceding two years, proof of eight contributions in the preceding two years or thirty contributions during any period, proof that they normally worked in insured occupations, and that they had worked in an insurable occupation to an extent that was reasonable within the preceding two years. The transitional period during which these qualifications for eligibility were to be permitted originally ended in April, 1929, but were later extended to April, 1930, and again to April, 1931.[1]

The "genuinely seeking work" provision was retained in this legislation, but a change was made with respect to work in the insured's regular occupation. The act provided that after a reasonable length of time, the insured was required to accept work in occupations out of his regular line of employment. The right of industries to contract out, which had been suspended in 1921, was abolished at this time.

Another change was made in the matter of the trade dispute disqualification. The Act of 1927 provided that persons not directly interested in or participating in a trade dispute and who did not belong in the class of worker directly interested in the dispute should not be disqualified from benefits because of a trade dispute at his place of employment.

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[1]Ibid., p. 53.

The Act of 1927 made a slight departure from the flat rate idea on which the unemployment insurance up to this time had been based. Classes of insured persons were created, not on the basis of earnings, but on the basis of age groupings, and both benefits and contributions were determined by these groupings. These groupings were introduced partly because of the fear of malingering on the part of young people whose benefits had approached their wages too closely.

The weekly rates of benefit established by the Act of 1927 were as follows:[1]

Men, 21 to 65 years	17s.
Women, 21 to 65 years	15s.
Young men, 20 years	14s.
Young women, 20 years	12s.
Young men, 19 years	12s.
Young women, 19 years	10s.
Young men, 18 years	10s.
Young women, 18 years	8s.
Boys, 16 to 17 years	6s.
Girls, 16 to 17 years	5s.

Additional benefits of 7s. for an adult dependent and 2s. for each dependent child were payable.

Rates of contribution according to age groupings were established by the act as follows:[2]

Employed Persons	Employers	Employees	Exchequer
Men, 21 to 65 years	8d.	7d.	6d.
Women, 21 to 65 years	7d.	6d.	4 1/2d.
Young men, 18, 19, 20	7d.	6d.	5 1/4d.
Young women, 18, 19, 20	6d.	5d.	3 3/4d.
Boys, 16 and 17	4d.	3 1/2d.	3d.
Girls, 16 and 17	3 1/2d.	3d.	2 1/4d.

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[1]Ibid., p. 55.
[2]Ibid., p. 56.

In 1929, the contribution of the Exchequer was increased to one-half the combined contribution of employer and employee.

The Act of 1930

The qualification that the insured worker must prove that he was genuinely seeking work and unable to find employment was a matter that caused considerable contention, particularly on the part of the workers. What constituted proof of genuinely seeking work was a matter which could not be very clearly defined. A committee was therefore appointed by Margaret Bondfield, Minister of Labor, in 1929 to make a study of the procedure and proof that had been required in the past.[1] The findings of this committee led to the inclusion in the Act of 1930 of a provision transferring the burden of this clause to the insurance officers. Instead of the worker proving he was genuinely seeking work, the act placed upon the insurance officers the responsibility for proving that the insured was not genuinely seeking work in order to disqualify him from benefits. The insurance officers had to prove that the claimant had been notified of a suitable vacancy and had refused to take it, or that he had not carried out written instructions of insurance officers given to help him in his search for employment. The disqualification for this cause was limited in this act, as in former acts, to six weeks.

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[1]Ibid., p. 57.

Another change brought about by this act applied to insured workers who could not meet the requirement of thirty contributions in the preceding two years and came under the transitional benefits. These workers had been required to prove that they had been in insured employment for a reasonable period of time in the preceding two years. This clause was abolished, and at the same time the transitional period for these benefits was extended until April, 1931. The act, however, provided that the funds to finance the extension of these transitional benefits were to come from the Exchequer, not from the unemployment insurance fund. It was expected that this would relieve the unemployment insurance fund of claims to benefit amounting to about £10,500,000 for the year.[1] The transferring of the burden of the transitional benefits to the Exchequer was a very important feature of the Act of 1930 because it was the first step toward establishing the unemployment insurance fund on an actuarially sound basis, such a basis as was intended originally when the first insurance act was passed in 1911. Such a system must of necessity provide for a definite ratio between contributions and benefits if it is to have a solvent fund.

The Act of 1930 also increased rates of benefit for young men and women, aged seventeen to nineteen, increased the allowance for adult dependents, and included in the

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[1] Gilson, Mary B., Unemployment Insurance in Great Britain, 1931, p. 60.

unemployment insurance system boys and girls fifteen years of age.

Twice during 1930 the amount that the unemployment insurance fund could borrow from the Treasury was increased, until in late 1930, the amount that could be borrowed was £70,000,000.[1]

Unemployment Insurance in 1931

The world-wide depression continued in 1931 to strain the resources of Great Britain's unemployment insurance system. By the end of 1931 the unemployment insurance fund was in debt to the Treasury £110,000,000, and the finances of the British Treasury were in a critical condition.[2] A committee was appointed to study the situation. The Royal Commission on Unemployment Insurance was appointed in December, 1930, to investigate the working of the unemployment insurance system with the objectives of placing it on a solvent basis and of providing methods of caring outside of the system for the unemployed who could not qualify for benefits under a self-supporting, actuarially sound system.

Several acts were passed during 1931 based on recommendations contained in the first report of this commission. The first act gave the Minister of Labor power to exclude from benefits classes of persons who were eligible for benefit only because of gaps in legislation. Among those

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[1] Ibid., p. 60.
[2] Hill, A. C. C., Jr., and Lubin, Isador, The British Attack on Unemployment, 1934, p. 188.

affected by this act were some part-time workers and women who claimed benefits after marriage even though they actually did not intend to work after marriage.

Later, in September, 1931, the Minister of Labor was given practically blanket powers to issue orders having to do with unemployment insurance and relief. Under these powers, the Minister of Labor immediately raised the rates of contributions approximately one-third and lowered the rates of benefits about 10 per cent.

Later orders provided that unemployment benefits, beginning on November 12, 1931, were to be paid only to those who fulfilled the qualification requiring thirty contributions within the two years preceding the claim, and limited benefits to 156 days in a benefit year. Ten additional contributions were required after exhaustion of the 156 days of benefit before benefit was again payable.

The orders also provided that further aid, after the exhaustion of the above standard benefits, would be given only upon certification by the Poor Law authorities that the claimant was in need. This was a decidedly new development as the "means test" had never been applied to claimants for benefits under the unemployment insurance system previously. These payments were called "transitional" payments and were paid through the unemployment insurance fund, the fund, however, being reimbursed by the Treasury. The benefits

combined the features of poor relief and unemployment insurance, as the claimant had to prove that he was in need, as under poor relief, and at the same time had to meet all the requirements for unemployment insurance benefits except the one relating to contributions. These transitional benefits were not poor relief, though they were very closely related to it. The funds for the payments came from the Treasury though payments were made through the employment exchanges in the same manner as standard benefits.

These new transitional payments played a very important part in the program for relief of unemployment. Beginning in May, 1933, the transitional benefits paid out were greater than the standard benefits paid. During the year ending March 31, 1934, transitional payments amounted to £52,250,000 while insurance benefits were only £44,053,000.[1] The introduction of the "needs test" and the segregation of these transitional payments from the standard insurance benefits was a turning point in the history of Great Britain's unemployment insurance system. Experience had shown that the system could not be maintained on a self-supporting basis so long as it was burdened with the relief of chronic and long-term unemployment.

The Unemployment Insurance Act of 1934

An Unemployment Insurance Act was passed by Parliament on September 1, 1934. The main purpose of this act was

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[1]Ibid., p. 206.

[illegible]

[illegible]

to consolidate in one act all of the amendments that had been made to the original act, and to establish the unemployment insurance system on a self-supporting basis. The act provided for the repeal of the borrowing powers of the unemployment insurance fund and for the liquidation of its debt at the rate of £5,000,000 a year.[1]

The scope and provisions of the Act of 1934 are the same as those of the Act of 1927, as amended by the orders of 1931.

To summarize, therefore, under Great Britain's present unemployment insurance system, by the Act of 1934, insured workers are eligible for benefits if thirty weeks of contributions have been paid by them in the preceding two years, after a waiting period of six days. The six days in the waiting period do not have to be consecutive days, nor does the worker have a six-day waiting period before each claim for benefit. Three days of unemployment within six consecutive working days are regarded as three consecutive days of unemployment, even though the worker may have been employed every other day, and two of these three-day periods within a ten week period constitutes fulfillment of the six-day waiting period requirement.

Voluntary quitting of a job, and loss of employment through misconduct increase the waiting period to six weeks. Benefits are not paid to workers losing their

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[1]Ibid., p. 220.

employment through trade disputes, except in those cases where the worker is not directly interested in or assisting in financing the dispute, and is not a member of the class of employees directly affected by the dispute.

Benefits under the Act of 1934, as under the orders issued in 1931, are limited to 156 days, or twenty-six weeks. A qualification is introduced in this clause in the new act, however, which permits more than the twenty-six weeks benefit in cases where the worker has been insured for at least five years. Additional benefit is given under such circumstances in the ratio of three additional days of benefit for every five contributions in the past five years, less a deduction of one day of benefit for every five days of benefit received during the period.

Under the Act of 1934 the employer, the employee, and the state each contribute one-third of the total paid into the fund. The following table gives the contributions under the Act of 1934.[1]

	Each Party	Total
Male, age 21 to 64	10.0d.	30.0d.
Male, age 18 to 20	9.0d.	27.0d.
Male, age 16 to 17	5.0d.	15.0d.
Female, age 21 to 64	9.0d.	27.0d.
Female, age 18 to 20	8.0d.	24.0d.
Female, age 16 to 17	4.5d.	13.5d.

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[1]Ibid., p. 156.

The scale of weekly benefits is shown in the following table:[1]

	Amount-Males	Amount-Females
Age, 21 to 64	17s.	15s.
Age, 18 to 20	14s.	12s.
Age, 17	9s.	7s. 6d.
Age, 16 and 17	6s.	5s.
Allowance for adult dependent		9s.
Allowance for each dependent child		2s.

The amount of these benefits in American money in 1934 is shown in the following table:[2]

Men, 21 to 65	$4.42
Women, 21 to 65	3.90
Young men, 18 to 21	3.64
Young women, 18 to 21	3.12
Boys, 17 to 18	2.34
Girls, 17 to 18	1.94
Boys, 16 to 17	1.56
Girls, 16 to 17	1.30
Allowance for dependent adult	2.34
Allowance for each dependent child	0.52

Thus, according to Robert G. Elbert, a married man with two children receives in benefits about $7.80 a week.[3] This does not seem a very large amount to Americans, but the cost of living is lower in Great Britain than it is here. Moreover, Great Britain's unemployment insurance system is not predicated upon the principle of maintaining the accustomed standard of living of the worker, but of providing him with rates at a subsistence level. This is one of the reasons

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[1] Ibid., p. 170.
[2] Elbert, Robert G., Unemployment and Relief, 1934, p. 66.
[3] Ibid., p. 66.

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[1] Ibid., p. 170.
[2] Hibert, Robert G., Unemployment and Relief, 1934, p. 66.
[3] Ibid., p. 66.

why the system is one based on the "flat rate" idea, rather than one basing the contributions and benefits on the earnings of the worker.

The Act of 1934, in order to secure the maintenance of a sound unemployment insurance fund, provided for the appointment of an Unemployment Insurance Statutory Committee. This committee, appointed by the Minister of Labor, is given the responsibility of keeping the fund solvent, reporting on its finances at the end of each year, and making recommendations respecting it. The committee is to consider the finances of the fund, not as they apply to a single year, but over a period of years, preferably over a trade cycle. The committee thus is responsible for determining in advance the amount of unemployment to be expected over a period of years, and making recommendations with respect to contributions and benefits, so that surpluses may be accumulated in good years to take care of claims against the fund in years of depression, and thus maintain a solvent unemployment insurance fund.

Thus, in the legislation of 1934, Great Britain placed her unemployment insurance system on a sound basis, limiting definitely the liability of the insurance fund to the payment of benefits to contributors only. This reestablished the contributory, limited liability principle on which the first insurance act of 1911 was based, and from

which Great Britain wandered far afield in the intervening years in her desperate attempt to care for her able-bodied unemployed during years of abnormal unemployment.

Unemployment Assistance, 1934

As we have seen above, the Unemployment Insurance Act of 1934 applies only to those unemployed who can qualify for benefits under the contributory plan. A self-supporting contributory insurance plan can not take care of all of the unemployed and remain solvent. During the period 1920-1931, the state had attempted to take care of all of the unemployed through the insurance system by "uncovenanted," "extended," and "transitional" benefits for those who could not meet the qualifications for standard benefits. Thus during this period, the insurance system actually became a means of doling out relief payments on a large scale as a right. In 1931 through orders issued by the Minister of Labor under powers granted by Parliament, these transitional benefits were definitely removed from the insurance system. By 1934, when the new insurance act was passed, it was recognized that a permanent method of caring for chronic and long-term unemployment must be provided in order to prevent this burden from falling on the unemployment insurance system in the future. In other words, unemployment insurance is not intended to provide for more than short-term unemployment, and a separate plan is necessary to care for

chronic and long-term unemployment. This is particularly true because it is today recognized that with changing economic conditions there will always be a large number of able-bodied unemployed who for one reason or another will not be able to qualify for insurance benefits.

In 1934, therefore, Great Britain passed an Unemployment Assistance Act which established a means of providing relief to all able-bodied unemployed. This system is entirely separate from the unemployment insurance system. It is a non-contributory plan covering all able-bodied unemployed between the ages of 16 and 65 who can show that they normally have an occupation. "It even includes those who 'but for the industrial circumstances of the district' in which they reside 'might reasonably have been expected' to have a normal occupation."[1]

Under this plan unemployment allowances are to be granted to any worker in need provided that he is registered for employment. The determination of need and the administration of the details may be placed in either the officers appointed by the central board created under the act, officers of the Ministry of Labor, or the local public assistance authorities.

The Unemployment Assistance Board, a central authority created under the act, is to take over from the local relief authorities the administration of all relief

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[1]Hill, A. C. C., Jr., and Lubin, Isador, The British Attack on Unemployment, 1934, p. 208.

to able-bodied unemployed persons. The board, in addition to issuing allowances to the unemployed, is authorized to provide for the rehabilitation of the unemployed so that they are fit to return to regular employment.

With this measure, Great Britain has set up a non-contributory, national relief organization to care for the unemployed who are not eligible for unemployment insurance benefits. It is a public relief system on a large scale, supported almost entirely--approximately 95 per cent according to one authority--by the National Treasury.[1] A very small part of the cost is borne by the counties and boroughs.

The passage of this act should definitely safeguard the solvency of the unemployment insurance fund. It is the result of Great Britain's experience with unemployment insurance--experience which has shown that insurance and relief cannot be mixed.

Extension of Insurance to Agricultural Labor

In 1935, Great Britain took another step forward in her unemployment insurance system through the passage of the Unemployment Insurance Bill extending coverage of insurance to employees in agriculture, horticulture, and forestry. This bill was the outcome of recommendations made by the Unemployment Insurance Statutory Committee. Inclusion of agricultural workers within the insurance system was felt

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[1]Ibid., p. 209.

to be necessary in order to encourage employment in agriculture. Workers had tended to withdraw from such employment in order to obtain the security provided in the insured occupations.

In this bill, Great Britain departed somewhat from her adherence to the principle of one straight pooled fund. Up to this time, no provisions had been incorporated in any of the insurance acts segregating the funds of any one industry. In the agricultural insurance act, however, provision is made for a separate agricultural account in the unemployment insurance fund. Contributions of agricultural workers are maintained in this separate account, and benefits paid to them solely out of this segregated fund. The Unemployment Insurance Statutory Committee must make a separate report on the status of the finances of this fund.

The agricultural insurance system covers workers in agriculture, horticulture, and forestry. It does not, however, include within its coverage employment for near relatives, nor employment in casual harvesting work when the employee is not normally in an insurable employment. The act also excludes employment as a private gardener, but this occupation was later brought under the provisions of the act as of February 1, 1937.[1]

Rates of contributions to the agricultural fund are lower than rates applying to workers who come under the

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[1]Ministry of Labor Gazette, November, 1937, p. 434.

provisions of the general insurance scheme, the rate of contribution for both employee and employer in the case of an adult man is only 4 1/2d., whereas the Act of 1934 established a rate of 10d. for men between the ages of twenty-one and sixty-five in the regularly insured occupations. Benefits are likewise lower than those payable to workers in other occupations. The agricultural worker--adult male--receives benefits of 14s. a week, workers in other age and sex classifications receiving correspondingly lower benefits. Benefits of 7s. a week for an adult dependent, 3s. a week for the first dependent child, and 2s. 6d. for other dependent children, are allowed.[1]

Statutory conditions governing qualification for benefit are different from those under the general insurance system. Payment of twenty contributions within two years entitles the agricultural worker to benefits, while workers in occupations covered by the general insurance system are required to show thirty contributions within two years.

A worker insured under the agricultural insurance system is entitled to twelve days of benefit for the first ten contributions to his credit at the beginning of a benefit year, and to three further days of benefit for every additional contribution, with a maximum of three hundred benefit days in a year possible. Contributions against

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[1]Ministry of Labor Gazette, January, 1936, p. 8.

which benefits have been paid under the foregoing benefit duration rules may not be used a second time in determining benefit duration.

The bill also introduces an innovation in permitting a partial refund of contributions of both employer and employee in cases of yearly and half-yearly hirings. In effect this amounts to a reduction of rates in cases of a guarantee of employment for a certain length of time. The refund, 25 per cent in the case of yearly hiring and 12 1/2 per cent in the case of half-yearly hiring, is given upon expiration of the year or half-year period.[1]

The agricultural insurance fund has been operating successfully since its inception.

Summary and Conclusions on Great Britain's Unemployment Insurance System

The history of Great Britain's unemployment insurance system has been one of constant change and amendment to meet the emergency of abnormal employment conditions. The original act passed in 1911 was based on the principle of providing an actuarially sound insurance system, with benefits definitely related to contributions and duration of benefits limited to a period which would not endanger the solvency of the fund. The rates of benefit and contribution were calculated on an unemployment rate of 8.6 per cent, and the fund was to be self-balancing over the period of a

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[1]Ibid., p. 8.

business cycle.[1] Under this act, benefits were limited to fifteen weeks in a year and could not exceed one week's benefit to each five contributions. The act definitely protected the solvency of the fund through providing these strictly limited benefits designed to care for short periods of unemployment, and consequently the fund operated successfully up until 1920. The success of the system up to 1920 was also due to the low rate of unemployment during the war and post-war years, and to the payment of the "dole" out of the Exchequer to war workers and veterans. The "dole" was larger in amount than unemployment insurance benefits and relieved the unemployment insurance fund of payment of benefits to some who might have been eligible for benefits. The unemployment insurance fund throughout the period 1911 to 1920 operated with a surplus, the surplus in November, 1920, amounting to nearly £22,000,000. Because of the success of the system up to 1920, it was felt that coverage could be extended to include most of the workers of Great Britain. The Act of 1920 was passed extending the coverage to over 11,000,000 workers. This included the great majority of workers over sixteen years of age with the exception of those employed in agriculture, domestic service, and non-manual labor at a remuneration of more than £250 a year. Contributions were increased under this act, but they were not increased enough to cover the higher benefits payable under

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[1]Hill, A. C. C., Jr., and Lubin, Isador, The British Attack on Unemployment, 1934, p. 210.

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[1] Hill, A. C. C., Jr., and Lubin, Isador. The British Attack on Unemployment, 1934, p. 210.

the act. The waiting period was reduced from six to three days.

The Act of 1920, however, maintained the underlying principles of the Act of 1911 in providing benefits in relation to contributions for a limited period of time. It was passed, however, at an unfortunate time, for beginning in 1921, Great Britain entered upon a period of abnormal depression and unemployment. Coverage by the insurance system had been extended to 11,000,000 people, most of whom had had no opportunity to build up the necessary contributions to be eligible for insurance benefits. In order to take care of the many unemployed who could not meet the requirements with respect to contributions, "extended benefits" were provided in amending acts in the years 1920 to 1927. These "extended benefits" were paid to insured individuals who had not been insured long enough to meet the regulations with respect to contributions or who had exhausted their right to standard benefits. Additional weeks of extended benefits were granted all through this period. The unemployment insurance fund, based on actuarial principles, was not, nor could it be, prepared to meet the drain of paying benefits for unlimited periods of time to those who had exhausted their right to benefits or who had never fulfilled the contribution requirements for eligibility to benefits. Great Britain, was, however, faced with emergency conditions,

and used the insurance system as a means of meeting the emergency. The fund, under these circumstances, could not remain solvent, and had to resort to borrowings from the Treasury in order to continue paying benefits. The surplus of £22,000,000 which the insurance fund had in 1920 was exhausted almost immediately and by 1923 the fund had an indebtedness of over £15,000,000.[1] Conditions improved in the year ending July, 1924, and the debt was reduced to £6,680,000.[2] Benefits for dependents were introduced during this period, bringing into the unemployment insurance system the principle of need for the first time. Just as the fund was beginning to show signs of being able to meet the situation, new amendments were passed in 1924 increasing the benefit rates and reducing contributions. The fund was forced to borrow in still larger amounts, and in March, 1927, the indebtedness of the fund stood at £24,710,000.[3]

Throughout the period 1921-1927, the payment of extended benefits, combined with increases in benefit rates and the introduction of benefits for dependents, made the maintenance of a solvent fund impossible. That the fund was not able to remain solvent, is, however, no criticism of the principle of unemployment insurance, for the fund was not intended to care for the unemployed for unlimited periods of time. Under the extended benefits, it was possible for an individual to receive benefits for as many as forty-four

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[1]Ibid., p. 215.
[2]Ibid., p. 215.
[3]Ibid., p. 215.

weeks out of fifty.

An attempt was made in the Act of 1927 to get back to a sound basis for eligibility to benefits. The act abolished extended benefits and provided that all benefits were standard benefits and were payable to those who had paid at least thirty contributions within the two preceding years. Even in this act, however, extended benefits were actually not abolished, but were given the name of "transitional benefits." It was recognized that the thirty contribution rule would work extreme hardship on those who could not meet the requirement, and thus "transitional benefits" were granted to those who could show eight contributions within the preceding two years, or who could show thirty contributions within any period. These "transitional benefits" were actually simply a continuation of the "extended benefits" under a different name. Originally, the "transitional benefits" were permitted only until April, 1929, but later they were extended until 1931. By the Act of 1927, benefits and contributions were based on age groupings, a departure from Great Britain's hitherto strictly flat rate principle.

At the end of March, 1930, the indebtedness of the fund had amounted to £38,950,000.[1] With the depression beginning in 1930, the strain on the fund continually increased and by the end of 1931, the debt to the Treasury was £110,000,000, even though in 1930, the payment of transitional

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[1]Ibid., p. 219.

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[1] Ibid., p. 219.

benefits was assumed by the Treasury.[1] The assumption of the cost of the transitional benefits by the Treasury did not enable the fund to meet the depression years of 1930-1931 because the number of unemployed was so great and also because the fund had not, during the previous years when it had borne the full cost of extended benefits, been able to accumulate a surplus to care for emergency conditions.

At the end of 1931, following a budgetary crisis which developed from the drain on the Treasury of contributions to the unemployment insurance fund, payments to the fund for transitional benefits, and loans to the fund, Great Britain again revised the insurance system to meet the situation. Benefits were cut down, contributions were raised, persons eligible to benefits only through gaps in legislation were excluded from benefits. Standard benefits were limited to twenty-six weeks in a year, and a "means test" was introduced for the receipt of transitional benefits. The cost of transitional benefits continued to be borne by the Treasury, as in 1930, though they were at all times paid through the unemployment insurance system. These provisions enabled the unemployment insurance fund to become currently self-balancing, and no further borrowings from the Treasury were made.

The fund was no longer drained by the payment of the extended and transitional benefits which had kept it in

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[1]Ibid., p. 219.

a constant state of insolvency since 1920. The assumption of the cost of the transitional benefits by the Treasury transferred the burden of chronic and long-term unemployment to the Treasury. During 1933 and 1934 the transitional benefits amounted to more than the standard benefits, and the improvement in the insurance fund was made possible through this recognition that the insurance system could not be expected to assume the burden of long-term unemployment.

The Act of 1934 consolidated all of the amendments to the original act and established the unemployment insurance system in Great Britain on a solvent and self-supporting basis. Benefits are payable to those who have paid contributions for thirty weeks within the preceding two years. Benefits are limited to twenty-six weeks in a year, except where a worker has been insured at least five years. The act provided for the repayment of the indebtedness to the Treasury at the rate of £5,000,000 a year, and repealed the borrowing powers of the fund. An Unemployment Insurance Statutory Committee is entrusted with the responsibility of maintaining the fund in a self-balancing condition over the period of a business cycle.

Relief of chronic and long-term unemployment has been entirely segregated from the insurance system, and has been entirely assumed by the National Treasury through the passage of the Unemployment Assistance Act of 1934. This

act provided for a system of non-contributory unemployment allowances payable to all able-bodied unemployed in need who are not eligible for unemployment insurance benefits. The provision of these unemployment allowances outside of the insurance system safeguards the insurance fund from the danger of a repetition of the experience of 1920 to 1931.

With the passage of the Unemployment Insurance and the Unemployment Assistance Acts in 1934, Great Britain has made permanent provisions for taking care of all of her unemployed in a systematic and satisfactory manner. The unemployment system today in Great Britain remains as established by the Act of 1934, with a few exceptions. Agricultural workers were brought under the unemployment insurance system in 1935, with a separate agricultural account in the unemployment insurance fund.

In 1937, an amendment was passed increasing the days of benefit allowed in excess of twenty-six weeks. Under the Act of 1934, workers insured for at least five years were given three additional days of benefit for every five contributions in the past five years, less a deduction of one day of benefit for every five days of benefit received. The 1937 amendment changes the provision "less a deduction of one day of benefit for every five days of benefit received" to a deduction of one day for every eight days of benefit received, thus increasing the duration of benefits for workers insured

five years or more. In addition, the waiting period is reduced from six to three days under the 1937 amendment. These liberalized provisions were recommended by the Unemployment Statutory Committee because the fund had accumulated a surplus of £17,600,000 in excess of the estimated surplus expected by the committee.[1]

Great Britain's unemployment insurance system is working satisfactorily. The insurance fund was indebted to the Treasury £106,000,000 when the Act of 1934 was passed. This is being paid off at the rate of £5,000,000 a year. By December, 1935, the fund had a reserve of £21,450,000. This had increased to £38,977,280 in December, 1936.[2] It is expected that the fund will prove self-balancing over the period of an eight-year business cycle, accumulating sufficient reserves in good years to care for increased claims for benefits in years of severe unemployment.

Great Britain's unemployment insurance system has been the subject of much criticism. The association of the out-of-work donations, popularly termed the "dole," granted to war workers and veterans immediately after the war, with the unemployment insurance system has been responsible for much of this criticism. In addition, the granting of "extended" and "transitional" benefits during the years 1920-1931 to those who were not eligible for unemployment insurance benefits, with its disastrous result on the finances

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[1]Ministry of Labor Gazette, March, 1937, p. 121.
[2]Ministry of Labor Gazette, March, 1937, p. 91.

of the insurance fund, has led to the belief that Great Britain's system cannot be termed a success.

The out-of-work donations, though paid through the unemployment insurance fund, were a direct grant from the Treasury, and were never a part of the unemployment insurance system. Great Britain chose to make this provision for ex-soldiers and war workers in order to meet the emergency created by the return of these ex-soldiers to civilian life and to care for war workers unemployed because of the return to peace-time production.

The granting of extended benefits in order to meet abnormal conditions from 1921-1931 did seriously undermine the finances of the insurance fund. It must, however, be remembered that the insolvency of the insurance fund throughout this period does not prove that unemployment insurance in Great Britain has been unsuccessful. The insurance system was attempting to meet conditions of abnormal long-term unemployment for which it was not intended, and later legislation, in 1934, recognized that a financially sound system could exist only if unemployment relief and unemployment insurance were segregated.

If Great Britain had not chosen to care for the unemployed by means of extended benefits in the years 1921-1931, she would have been forced to care for them through poor relief. In spite of the harm done to the insurance

principle, extended benefits were probably preferable to poor relief. Great Britain did take care of her unemployed during an unprecedented period of unemployment, and the unemployment insurance system was at least in part responsible for her ability to do so.

CHAPTER III

U N E M P L O Y M E N T I N S U R A N C E
I N G E R M A N Y

Background of Germany's System

Germany was faced with a problem similar to Great Britain's with the ending of the World War. Demobilized soldiers and war workers formed a large group of unemployed for whom provision had to be made by the government. The Federal Office for Economic Demobilization was created in November, 1918, to handle the situation. From the date of its organization until the passage of Germany's Employment Exchanges and Unemployment Insurance Act in 1927, this office issued orders and rules governing the payment of unemployment relief allowances.

The first orders issued by the Office for Economic Demobilization authorized the communes to grant unemployment allowances to persons in need who were willing and able to work. When possible, work was to be found for applicants. The funds for these allowances were provided by the federal government, the states, and the municipalities.[1]

Later, in 1919-1920, with the increase of unemployment, provision of work, rather than relief, was stressed. Orders were issued to employers restricting the discharge of workers, and productive unemployment relief projects were

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[1] Carroll, Mollie Ray, Unemployment Insurance in Germany, 1930, p. 19.

CHAPTER III

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emphasized. Regulations limiting the receipt of relief to twenty-six weeks were issued, but in cases of extreme need, a further twenty-six weeks' relief was possible.[1] The allowances for relief varied according to the cost of living in different localities but in all cases were very small and barely sufficient for subsistence.

In 1923, Germany was confronted with an increase in unemployment and with the tremendous inflation of her currency. The budgets of the communes, the states, and the federal government were faced with a severe strain and at this time (1923) were forced to shift the burden of unemployment relief to employers and workers. Orders were therefore issued throwing four-fifths of the cost of unemployment relief and the public employment exchanges onto the employers and employees. The communes provided the other one-fifth.[2] The states and the federal government were thus relieved of this burden except in emergencies.

In 1924, further orders were issued, the burden of supporting the allowances and the employment exchanges remaining on the employers and workers. Contributions of workers and employers were equal, the worker's share not exceeding 3 per cent of wages. The states and the federal government contributed only when the expenditures for relief were not covered by the contributions of the employers, workers, and communes for more than two weeks.

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[1] Ibid., p. 22.
[2] Ibid., pp. 24-25.

Employers and workers objected to contributing to the funds for payment of relief because relief was granted only to those in need and contributions did not give the worker a claim against the fund. Administrative difficulties were also encountered because of the overlapping jurisdictions of the communes, the state, and the federal government.

Severe unemployment in 1926 caused the extension of unemployment allowances beyond the fifty-two weeks previously in force, and the cost of these emergency allowances was assumed by the federal government and the communes.[1] Experience throughout this period indicated the difficulty of handling the unemployment problem on a local, decentralized basis, and turned attention to the need for a federal program for the care of the unemployed. A committee was sent to study the unemployment insurance system of Great Britain.

Finally, on July 16, 1927, the Employment Exchanges and Unemployment Insurance Act was passed.

Germany profited by the experience of Great Britain in the years 1920-1927 when extended benefits destroyed the insurance principles of the original act. Germany's act provided for three types of unemployment relief--unemployment insurance, extended unemployment benefits, and welfare support. The unemployment insurance is a

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[1]Ibid., p. 27.

contributory system providing benefits as a right to those contributors who qualify for benefit, and this is financed entirely by the contributions of employers and workers.[1]

Extended unemployment benefits are not paid out of the unemployment insurance funds, but are financed four-fifths by the federal government and one-fifth by the communes. The unemployment insurance funds are thus relieved of the burden of chronic and long-term unemployment which caused so much difficulty in Great Britain.

Welfare support is simply poor relief and is supported entirely by the communes.

The Unemployment Exchanges and Unemployment Insurance Act of 1927

Coverage[2]

The German unemployment insurance law covers most laborers earning less than 6000 marks a year and salaried employees earning less than 8000 marks a year. It includes almost all groups covered under the health insurance plan. Among these are:

1. Laborers, apprentices, journeymen, and domestic apprentices.
2. Administrative staff of industrial and commercial establishments, foremen, and other salaried employees of similar position.

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[1] U. S. Department of Labor, Bureau of Statistics, Bulletin No. 544, Unemployment-Benefit Plans in the United States and Unemployment Insurance in Foreign Countries, 1931, pp. 251-252.

[2] Carroll, Mollie Ray, Unemployment Insurance in Germany, 1930, pp. 50-51.

3. Clerks in stores, offices, and drug-stores.

4. Actors and musicians.

5. Teachers and instructors, and persons employed in connection with education, instruction, nursing, and welfare work.

6. Domestics.

7. Crews of German ships.

Exemption from compulsory insurance is provided for persons engaged in agriculture, forestry, and fishing, whether as owners, or as wage earners under contract for more than a year with six months' notice required. Although apprentices are included, they are included under the limited provision that they are subject to unemployment insurance only during the six months preceding the termination of the apprenticeship. Casual workers and most industrial home workers are excluded. A special provision also excludes the personnel of establishments that were operating, before the passage of the act, an unemployment system with higher benefits than the state system provides. This provision was made especially for the Zeiss Optical Works, which had been operating an exceptionally satisfactory system for years. About 22,000,000 workers are included within the scope of the act.

Contributions[1]

Equal contributions from employers and employees

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[1]U. S. Department of Labor, Bureau of Statistics, Bulletin No. 544, Unemployment-Benefit Plans in the United States and Unemployment Insurance in Foreign Countries, 1931, p. 253.

3. Clerks in stores, offices, and drug-stores.

4. Actors and musicians.

5. Teachers and instructors, and persons employed in connection with education, instruction, nursing, and welfare work.

6. Domestics.

7. Crews of German ships.

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[1] U. S. Department of Labor, Bureau of Statistics, Bulletin No. 544, Unemployment-Benefit Plans in the United States and Unemployment Insurance in Foreign Countries, 1931, p. 953.

provide for the maintenance of the unemployment insurance system. Contributions in Germany, however, are not based on the flat rate plan, as in England, but on a percentage of wages or salaries. Originally the combined contribution of employers and workers was set at 3 per cent of wages, but this was raised to 3 1/2 per cent, 4 1/2 per cent, and finally on October 6, 1930, to 6 1/2 per cent. Contributions of both worker and employer to the system are paid by the employer through the health insurance system, thus reducing the cost of collection.

Eligibility to Benefits[1]

Benefits are payable to the insured worker who is able and willing to work and is involuntarily unemployed, provided that he has worked twenty-six weeks within the past year in an insured occupation. In order to qualify for benefits for the first time, the insured must have worked fifty-two weeks within the preceding two years, although where "unreasonable hardship" would result, this period may be extended to three years. Ability to work is defined by the law as ability to earn at least one-third of the amount that a person of sound mind and body and similar training can earn in a similar occupation. Refusal to accept work, even though removed from his own locality, or leaving work without justifiable cause, disqualifies the insured from benefit for from two to eight weeks. After nine weeks, employment

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[1]Ibid., pp. 254-255.

that is out-of-line with his previous occupation and training must be accepted. As in England, unemployment caused by labor disputes, is not covered by insurance benefits.

Waiting Period

A waiting period of fourteen days is required for persons without family members entitled to additional family allowances, of seven days for persons having one to three dependents, and of three days for those with four or more dependents.[1] A reduction of the waiting period is permitted when the claim for benefit follows a period of at least two weeks part-time employment.

Benefits

Benefits in Germany are based on wage classifications, whereas in England we have seen that the flat rate idea is applied with a slight qualification for age groupings. Workers in Germany are divided into eleven wage groups, and a standard wage is set for each group. Benefits are a certain percentage of the standard wage of the group to which the insured belongs.

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[1]Ibid., p. 255.

[illegible]

[illegible]

[illegible]

The following table shows the weekly standard wages:[1]

Class	Standard Weekly Wage
Class I	8 marks ($1.90)
Class II	12 marks ($2.86)
Class III	16 marks ($3.81)
Class IV	21 marks ($5.00)
Class V	27 marks ($6.43)
Class VI	33 marks ($7.85)
Class VII	39 marks ($9.28)
Class VIII	45 marks ($10.71)
Class IX	51 marks ($12.14)
Class X	57 marks ($13.57)
Class XI	63 marks ($14.99)

Benefits for Class I are 75 per cent of the standard wage; for Class II, 65 per cent; for Class III, 55 per cent; for Class IV, 47 per cent; for Classes V and VI, 40 per cent; for Class VII, 37.5 per cent; and for Classes VIII through XI, 35 per cent. A supplementary allowance of 5 per cent of the standard wage is given for each dependent member of the family, but the total benefits received may not exceed the following per cents of standard wage:[2]

Classes I and II	80%
Class III	75%
Class IV	72%
Classes V and VI	65%
Class VII	62.5%
Classes VIII--XI	60%

The insured worker's contributions to other forms of social insurance are maintained by funds provided by the

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[2]Ibid., p. 255.

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[1] Ibid., p. 254.
[2] Ibid., p. 255.

federal government during the time he receives unemployment benefit.

Duration of benefits

The benefit period for unemployment insurance is definitely limited by law to twenty-six weeks.[1] At the expiration of that time, the worker must look to the extended unemployment benefit system for assistance.

Extended Unemployment Benefit[2]

At the expiration of the twenty-six weeks of insurance benefit, the responsibility of the unemployment insurance fund for the worker is ended. The German unemployment law, however, provides for a system of non-contributory extended benefits outside of the regular insurance system to care for long-term and chronic unemployment. The funds to finance this extended benefit are provided four-fifths by the federal government and one-fifth by the communes. Insured workers who have exhausted their rights to benefit, insured persons who have not paid a sufficient number of contributions for eligibility to insurance benefits, and non-insured persons in need may receive extended benefits. The period for which these benefits are payable may be fixed by the Minister of Labor. The limit is usually thirty-two weeks, but the local employment offices are permitted to extend the period to forty-five weeks in the cases of persons

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[1]Ibid., p. 256.
[2]Ibid., p. 256.

over forty years of age who are in an extremely necessitous condition. The rates of extended benefits are based on the same scale as insurance benefits, except that benefits for Classes V to XI are reduced in the following manner: Persons with at least one dependent receive the benefit rates of Class V instead of Class VI, of Class VI instead of Classes VII and VIII, and of Class VII instead of Classes IX to XI. Allowances for dependents are correspondingly reduced. Persons without dependents receive the rates of the class below that in which they belong.

The extended benefits system is a permanent national relief system, similar in many respects to the unemployment assistance created by Great Britain in 1934, and recipients of benefit must be in need.

Welfare Support[1]

When the German worker has exhausted his rights to both insurance benefits and extended benefits, he must then apply for welfare support. Welfare support is the regular poor relief system of the local communities. It is supported entirely by the communes, towns, and cities, receiving no federal or state aid. A very strict needs test must be passed by applicants for welfare support, and no limit is set with regard to the length of time for which support may be given.

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[1]Ibid., p. 257.

Use of Employment Exchanges[1]

The employment exchanges are a part of the unemployment systems. Germany has emphasized in all her social legislation the principle of prevention rather than relief, and consequently has stressed the placement and vocational guidance of the unemployed. Prior to the passage of the Employment Exchanges and Unemployment Insurance Act of 1927, the communes had been operating approximately nine hundred public employment offices. In addition, employment offices were operated by private agencies for profit, by political organizations, by organizations of employees, and by employers' organizations. When the Act of 1927 was passed, all of the public offices were taken over by the Federal Bureau of Employment Exchanges and Unemployment Insurance, and grouped into thirteen district and three hundred sixty-one local employment offices. In 1929, a revision of the law provided for the closing of all private employment agencies by January 1, 1931, and prohibited political organizations from operating employment offices. The agencies operated by employee and employer organizations were permitted to continue under the supervision of the Federal Bureau. Thus Germany turned over all placement work to the jurisdiction of the federal government.

Unemployment benefits, both insurance and extended, are paid through the labor exchanges. Upon loss of employment, the worker reports immediately to his local employment

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[1]Carroll, Mollie Ray. Unemployment Insurance in Germany, 1930, p. 55.

office. He must present a card showing his earnings during the previous six months of employment and a statement from his employer showing the dates of employment and discharge, reason for discharge, and earnings. Efforts are made to place the worker in another position, and failing this, benefits are paid after expiration of the required waiting period. The unemployed person is required to report at the employment office at least three times a week. In some cases, daily reporting may be required. The regulations with respect to registering and reporting at the employment offices apply not only to applicants for regular insurance benefits, but to applicants for extended benefits and even welfare support. Failure to report on the days required is penalized by loss of benefit for each day the applicant does not report.

Placement on productive relief works may be offered when other placement is not available.

The employment offices play an important role in providing vocational guidance. They do not give vocational training but they do cooperate with schools giving vocational training and rehabilitation courses.

Administration of the System[1]

The German Unemployment Insurance system is administered through a public corporation, The Federal Institute of Employment Exchanges and Unemployment Insurance, under

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[1]Epstein, Abraham, Insecurity, A Challenge to America, 1936, p.377.

the general supervision of the Minister of Labor. The Federal Institute functions through an administrative council including thirteen representatives each of employers, employees, and public authorities, and through local and district administrative committees, on which equal numbers of representatives of workers, employers, and public authorities are required. The administrative council determines policies concerning rates of contribution and benefit, and is authorized to take steps to combat unemployment. The local and district administrative committees determine rules and procedures with respect to their individual employment offices. Courts of appeal are attached to the local and district offices, but the final court of appeal is not connected with the Federal Institute. Final appeals are made to the Federal Insurance Bureau, a court of appeal dealing with all types of social insurance.

In setting up the above administrative machinery, Germany attempted to establish her unemployment insurance as an independent organization beyond the reach of political influence. It left the balance of power in the hands of employers and employees, rather than with the public authorities, giving, in the words of Mollie Ray Carroll, "a quasi-industrial character to offices which enforce national legislation."[1]

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[1] Carroll, Mollie Ray, Unemployment Insurance in Germany, 1930, p. 64.

Value Creating Unemployment Relief[1]

In Great Britain, little attempt was made to provide any form of public works for the relief of unemployment. Germany, on the other hand, definitely included in her Act of 1927 provision for a system of productive unemployment relief. This type of relief had been used during the period between 1920 and 1927, and the desirability of providing productive employment wherever possible was therefore already well established in Germany. The Act of 1927 provided that persons might be given work in value creating employment instead of receiving insurance benefits, extended allowances, or welfare support. These value creating projects are tied up with Germany's unemployment relief systems, in that the insurance system provides funds for projects employing persons eligible for insurance benefits, the local welfare authorities provide funds for employment of persons who would otherwise receive welfare support, and the federal government and communes provide funds to employ those who would otherwise receive extended benefits. Loans from the federal and state governments are also made available for projects that would not normally be undertaken by them. Prior to 1927 grants had been made to private enterprises, but this had not proved successful and was prohibited by the Act of 1927.

Funds for this type of project had to be expended

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on genuinely productive work but could not be used for work which would be carried on regardless of employment conditions. Land reclamation, swamp drainage, street and road building, the building of dams, and the improvement of waterways were included among the value creating employment projects, provided always that they would not be undertaken by communities without assistance. Productive employment on this type of project is more expensive than the payment of benefits, but justification for it rests on the beneficial effect on the worker. It maintains his ability and desire to work, and prevents the demoralization of the worker during long periods of idleness.

Operation

Germany, like Great Britain, was unfortunate in inaugurating her unemployment insurance and relief systems during a period when unemployment conditions continued to grow more severe with the passing of each year. During the last part of 1927, income exceeded expenditures, but beginning in 1928 the strain on all the relief agencies of Germany began to grow and continued to grow throughout the next few years.

Expenditures during the first year of operation, 1927-1928, amounted to 980,000,000 marks plus an additional 122,000,000 marks contributed by the unemployment insurance fund and the national treasury for public works.[1] About

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[1]Ibid., p. 84.

58 per cent of the total expenditures was paid out for unemployment benefits; 8 per cent for maintaining other social insurance contributions; 13 per cent for value creating projects; 13 per cent for extended benefits; 7 per cent for administration, and 1 per cent for benefits to persons in part-time employment.[1] The experience during the first year of the act was therefore not unsuccessful.

During the second year of operation, 1928-1929, conditions in Germany were becoming worse. A depression, combined with severe weather conditions and a shortage of coal, increased the number of unemployed greatly. The Federal Institute was forced to borrow from the national treasury and by the end of 1929 its indebtedness to the treasury amounted to 330,000,000 marks, and by 1930 amounted to 335,000,000 marks.[2] It was evident by this time that the 3 1/2 per cent contribution, in effect at that time, could not cover the expenditures for the system. An amending act passed in April, 1930, provided for the cancellation of all loans made to the fund previous to April, 1930, and for the granting of an annual subsidy. A grant of 200,000,000 marks was made for the period April 1, 1930 to March 31, 1931, and provided for loans if administrative revisions were made to insure repayment.[3] The government in the fall of 1930 retracted these provisions and ruled that no further subsidies nor loans were to be made to the fund. In March, 1931, the

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[1]Ibid., p. 84.
[2]Ibid., p. 86.
[3]Ibid., p. 89.

fund was forced to borrow 83,000,000 marks from the Reichsbank to carry on its benefits.[1] The finances of the fund were fairly sound at this time. For the year April 1, 1931 to March 31, 1932, the fund showed an excess of income over expenditures of 24,033,000 Reichsmarks.[2] The reason for the soundness of the fund at this time, however, was that the greater number of unemployed were being cared for outside of the insurance system, by means of extended benefits and poor relief.

The great difficulty in Germany, at this time, arose from the burden of extended benefits and welfare support. The communes were carrying one-fifth of the cost of extended benefits and all of the cost of welfare support. The communes were heavily in debt because a large group of the unemployed were being cared for, not through insurance benefits, but through extended benefits and welfare support. Federal subsidies to the communes became necessary in order to relieve some of this burden.

Operation, 1932-1933

The number of unemployed workers continued to increase in 1932, the average number of unemployed during 1932 being 5,580,000.[3] The financial difficulties of the communes

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[1] U. S. Department of Labor, Bureau of Statistics, Bulletin No. 544, Unemployment-Benefit Plans in the United States and Unemployment Insurance in Foreign Countries, 1931, pp. 251-252.

[2] Unemployment Insurance and Relief in Germany, 1932, National Industrial Conference Board, p. 10.

[3] Economic Development of Germany under National Socialism, 1937, National Industrial Conference Board, p. 34.

during this time brought about radical changes in the unemployment insurance scheme, changes which undermined the principles underlying the insurance system created by the act passed in 1927.

The first change in the direction of undermining the insurance principle occurred in 1931, when the right to insurance benefits was denied to unemployed married women even though they had met all the requirements for benefit, unless they could prove that they were in actual need of support.[1] This change was made in order to relieve some of the financial burden on the unemployment insurance fund and to prevent married women who had no intention of securing employment from receiving benefits. It applied to all married women, however, and marked the beginning of the collapse of the insurance principle by introducing a needs test for a group who under the 1927 law were entitled to benefits as a right through having made the necessary contributions.

The most drastic changes, however, occurred under the emergency decrees of June, 1932. These decrees gave the federal government the right to change rates of benefit, to make benefits dependent upon need after a certain time, to use surpluses of the insurance fund for other forms of unemployment relief, and to make ineffective any provisions of the Labor Exchanges and Unemployment Insurance Act of 1927.

Under the powers granted by the decrees of June,

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[1]Unemployment Insurance and Relief in Germany, 1932, National Industrial Conference Board, p. 17.

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[1] Unemployment Insurance and Relief in Germany. 1932.
National Industrial Conference Board, p. 17.

1932, important changes were made in the unemployment insurance system. Benefits were reduced approximately 23 per cent, and were no longer expressed as a percentage of basic wage rates. Instead, benefits were dependent upon the size of the community in which the unemployed worker resided, a definite benefit being stated for each wage class in each community class.[1] The amount of benefit thus varied according to cost of living, which is not in line with insurance principles.

The length of the benefit period was reduced from twenty-six weeks to twenty weeks. The most significant change, however, was the introduction of a provision that workers could not receive insurance benefits after six weeks unless they passed a strict needs test.[2] The needs test is administered, not by the labor offices, but by the communal welfare authorities. Insurance benefits thus became no longer a matter of right, except for a brief six weeks, but a matter of destitution. This was entirely contrary to the original aims of the law of 1927, and marked the breakdown of unemployment insurance in Germany. In Germany, as in Great Britain, these changes, deplorable as they were because of their effects on the principles of social insurance, were the result, not of choice, but of necessity. The communes could not bear the burden of unemployment relief, and the insurance system had to be used to meet the emergency of

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[1]Ibid., p. 20.
[2]Ibid., p. 22.

abnormal unemployment.

In order to raise revenues to cover part of the cost of unemployment relief, a new tax, called a contribution to unemployment relief, was levied beginning in June, 1932, on all wage earners, office workers, salaried employees, and civil service workers, in the form of a wage deduction.[1] The revenues raised by this tax are deposited with the Federal Bureau of Employment Exchanges and Unemployment Insurance, subject to disposal by the federal government. The funds are used to relieve the financial burdens of the communes for unemployment relief. During 1932, regular unemployment insurance benefits were caring for only 11 per cent of the unemployed, the remainder being cared for through extended benefits and welfare relief.[2] Moreover, the benefits paid were barely enough for subsistence, and in some cases were less than amounts which were granted under welfare relief.

Hitler and the National Socialist Party

The number of unemployed reached its highest peak during 1932 and the unemployment insurance system could not meet emergency conditions which it had not been intended to meet. Economic conditions were at the lowest point when the National Socialist Party, under Chancellor Adolf Hitler, came into power in January, 1933. The assumption of dictatorial power by Chancellor Hitler, and the carrying out of

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[1]Ibid., p. 23.
[2]Ibid., p. 24.

the National Socialist Party's program in Germany was possible because of Germany's deplorable economic conditions. The National Socialist Party under Hitler embarked on plans to rearm Germany, to make it self-sufficient economically, and to eliminate unemployment. While private enterprise presumably functions in Germany, it functions only under the complete control of the state. A system of planned economy has been established in the interest of the general welfare of all Germany, and all private enterprises must be conducted in accordance with the general welfare. What constitutes the general welfare, is, however, decided by Chancellor Hitler and the leaders of the National Socialist Party.

Under the Hitler regime, unemployment has steadily declined. At the beginning of 1933, the number of registered unemployed was over 6,000,000.[1] By September, 1936, the number of unemployed had dropped to only a little over one million, and in March, 1937, the number of unemployed was 1,245,000.[2] Economic conditions in Germany have greatly improved, though recovery has not brought about an appreciably higher standard of living, as wages, by government control, have remained at a low level and prices have risen. The planned economy has had for its main objective the rearming of Germany and has prevented any appreciable rise in standard of living in order to attain this objective.

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[1]National Industrial Conference Board, Economic Development of Germany Under National Socialism, 1937, p. 33.
[2]Ibid., p. 33.

Nevertheless, the condition of millions who were totally or partly unemployed prior to the Hitler regime, has improved considerably.

The reduction of unemployment in Germany from 1933 to 1937 has been brought about through the rearmament program, the public works programs, and the stringent regulation of private industry under a planned economy. About four billion Reichsmarks were expended by the government on public works programs, and about eighteen billion Reichsmarks on rearmament during the years from 1932 to 1937, according to an estimate of an investigator of the National Industrial Conference Board.[1]

During the Hitler regime, the unemployment insurance system, as modified by the decrees of 1932, has continued to function. Benefits paid out have continually decreased with the increase in employment in private enterprise and on public works programs. In 1934, further changes provided that regular benefits were to be granted for only fourteen weeks, with a means test at the end of six weeks. At the end of fourteen weeks, the worker is transferred to extended benefits and has to pass a means test every thirteen weeks.[2] The unemployed person remains on extended benefits indefinitely, and is not transferred to welfare support as he was formerly. This was done in order to shift the burden from the communes to the extended insurance

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[1]Ibid., p. 34.
[2]Monthly Labor Review, August, 1934, p. 30.

system, and is partly financed by the special "unemployment relief contribution" or "crisis tax." In 1936, the Federal Bureau for Unemployment Insurance paid regular and extended benefits to 902,000, and only unemployables were being cared for through the welfare relief of the communes, whereas during the years 1930, 1931, and 1932, the greater part of the unemployment burden was being carried by the welfare relief of the communes.[1]

The insurance system in Germany today is still operating on a relief basis, rather than an insurance basis, as the provisions of the decrees of 1932 and 1934 are still in effect, and the needs test is applied after six weeks' benefits have been received. In June, 1937, benefit rates were increased somewhat, but no action has been taken toward restoring the original insurance principles of the Act of 1927.

Summary and Conclusions on Unemployment Insurance in Germany

The original Employment Exchanges and Unemployment Insurance Act of 1927 attempted to create an actuarially sound insurance system. The whole cost of regular insurance benefits was to be borne by the employers and employees. In order to protect the finances of the fund, special provision was made for long-term unemployment. Such unemployment was to be taken care of through extended benefits which were

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[1]National Industrial Conference Board, Economic Development of Germany Under National Socialism, p. 34.

financed one-fifth by the federal government and four-fifths by the communes.

Regular insurance benefits under the law of 1927 were payable for twenty-six weeks. Extended benefits were payable for the length of time fixed by the Minister of Labor. At first thirty-two weeks of extended benefits were permitted, but later this was extended to forty-five and then to fifty-eight weeks in the case of persons over forty years of age. Recipients of extended benefits were required to show that they were in need. After a worker had exhausted both the regular and extended benefits, he was turned over to welfare relief, which was financed entirely by the communes.

Germany, through the provision of three kinds of unemployment relief, attempted to safeguard the regular insurance system, and to provide regular insurance benefits as a contractual right. The attempt proved unsuccessful because of severe unemployment conditions caused by the greatest depression the world has yet experienced. Contributions and benefits in Germany were based on an estimate that the average annual number of unemployed would not be more than 1,250,000. During the years 1927 to 1933, however, the number of unemployed reached as high as 6,000,000, and the unemployment insurance fund was forced to borrow from the federal government in large amounts. At the same time, the insurance fund cared for only a small percentage of the

unemployed, the greater burden falling on the federal government and the communes due to the fact that most of the unemployed were eventually transferred to the extended benefits and welfare support systems. In 1932, the finances of the communes were in such a condition that emergency decrees were passed which altered the principles underlying the regular insurance system. Regular benefits were reduced to twenty weeks, and later to fourteen weeks, and a needs test was required after the first six weeks. Funds of the insurance system could be used for other than regular benefits. In order to help the communes, workers were no longer transferred to welfare support, but were kept on extended benefits, and a special "crisis" tax was levied to help meet the cost of extended benefits. The system became a relief, rather than an insurance system.

With the rise to power of the National Socialist Party under Hitler in January, 1933, conditions in Germany improved greatly because of the rearmament and work relief programs inaugurated. The insurance system, however, has remained on a relief rather than insurance basis up to the present time. Yet it cannot be said that the principle of unemployment insurance has been proved unsound because of Germany's experience. The regular insurance system was not intended to provide for long-term unemployment caused by a severe depression, and thus cannot be said to have failed

because it did not accomplish something for which it was not intended. Germany's experience, like Great Britain's, teaches us that unemployment insurance can be only a "first line of defense," and that the problem of chronic and long-term unemployment must be met by other methods.

CHAPTER IV

UNEMPLOYMENT INSURANCE IN THE UNITED STATES

Background of Present Legislation

Attitude toward Unemployment Insurance

The battle for unemployment insurance in the United States has been a hard one. The tendency in the United States has been to resist any inroads on rugged individualism. It has been argued by critics that a system of unemployment insurance would remove from the individual the incentive to work, would destroy thrift, and build up a citizenry content to let the government assume the responsibility for their well-being. England's so-called "dole" has constantly been referred to with horror as an argument against unemployment insurance. Unemployment was looked upon as an individual problem, as one which could be controlled by the individual. Employers, with the exception of a small group of progressive firms, were opposed to unemployment insurance. Even the American Federation of Labor opposed unemployment insurance until 1932.

Probably one of the most important difficulties encountered in the struggle for unemployment insurance in the United States, however, is our federal form of government. The Federal government was thought to have no power

to enact a Federal law, and the individual state, by enacting a law, would place its industries at a competitive disadvantage with industries in states having no law.

During the recent severe depression a noticeable change in public opinion took place in this country, and it became evident to many that the unemployed were not responsible for their plight. Dr. Isador Lubin of the Institute of Economics states: "No impartial observer of industry would attribute today the existence of any but a relatively small share of unemployment to the workers themselves .....Unemployment is a persistent factor in modern economic life."[1]

During the severe depression, it became necessary for the government in this country to assume responsibility for the unemployed. Emergency agencies were set up by the Federal government to provide work and to provide relief for those in need. Among these agencies were: The Public Works Administration, the Civil Works Administration, the Civilian Conservation Corps, and the Federal Emergency Relief Administration. In the period between March, 1933, and October, 1934, these agencies had expended almost three billion dollars, and up to the present tremendous expenditures have continued to be made. People in the United States have come to believe that the government does have a part in providing security for its citizens, and that "rugged individualism"

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[1]Laidler, Harry W., Unemployment and Its Remedies, 1931, p. 8.

cannot solve the problems of modern economic life.

Experiments by Individual States

Prior to 1935, Wisconsin was the only state to pass an unemployment insurance law. On January 29, 1932, Wisconsin became the pioneer in the field of unemployment insurance in this country by passing an unemployment reserves and compensation law to become effective on July 1, 1934.

This law provided for a fund contributed by employers only, out of which benefits were to be paid on the basis of one week's benefit to four weeks of employment, with a maximum benefit period of ten weeks in a year. Contributions by employers were set at 2 per cent of payrolls until a fund of $55.00 per worker was accumulated and then at 1 per cent of payroll until a fund of $75.00 per worker was accumulated. After the fund had reached $75.00 per worker, no further contributions were to be made until the fund fell below $75.00 a worker. Funds under this plan were to be segregated under the name of the individual employer, and the worker would have a claim only against the reserve of his own employer. Benefits under this act were $10.00 a week or 50 per cent of average weekly salary, whichever was lower. Companies which guarantee forty-two weeks of employment in a year to their workers were exempted from the payment of contributions.[1]

The Wisconsin plan is of interest in that it was

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[1]Elbert, Robert G., Unemployment and Relief, 1934, pp. 104-105.

the first plan to be put into effect. It has been changed slightly since the passage of the Social Security Act in 1935.

Ohio attempted to pass an unemployment insurance law in 1933, but the bill failed to pass the Senate. As Wisconsin and Ohio were the only states to initiate any steps toward unemployment insurance prior to 1935, it is evident that Federal pressure only could hasten the advent of unemployment insurance laws throughout the country. In 1935, that pressure came with the passage of the Social Security Act.

The Social Security Act of 1935[1]

The Social Security Act was adopted in August, 1935. This act includes provisions having to do with old-age assistance, aid to dependent children, aid to the blind, old-age benefits, maternal and child-health services, services for crippled children, child welfare services, vocational rehabilitation, and unemployment insurance. It covers practically the whole field of social security.

The act, in itself, does not provide an unemployment insurance system, nor does it compel states to provide such systems. It does, however, in Titles III and IX, encourage states to pass unemployment insurance legislation by removing the chief deterrent to such action. That deterrent

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[1]U. S. Government Printing Office, Summary of Provisions of the Federal Social Security Act Relating to Unemployment Compensation, 1936, p. 1.

had been the fear of the individual state of placing its industries at a competitive disadvantage if it passed an unemployment insurance law while other states did not.

The Social Security Act removes this disadvantage by levying a Federal tax on employers of eight or more persons employed in each of twenty weeks in a year except in the following employments:

1. Agricultural labor.
2. Domestic service in a private home.
3. Officers or members of crew of a vessel on the navigable waters of the United States.
4. Individual in employ of son, daughter, or spouse, child under 21 years of age in employ of parent.
5. Public employees--Federal, state, and local.
6. Employees of non-profit institutions operated exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

The tax levied by the act is 1 per cent of wages in 1936, 2 per cent in 1937, and 3 per cent thereafter. This tax is paid by the employer, no assessment being made on the employee by the Federal government, and the proceeds of the tax go into the treasury of the Federal government.

A tax offset device is provided in order to encourage state legislation. The above tax is levied on employers

in all states, but the act provides that an employer may credit against this tax contributions paid by him to an unemployment insurance fund under a state law. The amount of the credit allowed may not be more than 90 per cent of the Federal tax. In order that the tax credit may be obtained, the unemployment insurance law of the state must have been approved by the Social Security Board. In states permitting the reduction of contributions for employers having good employment records, the Federal law makes provision for the allowance of credit for the amount by which contributions are reduced.

The Social Security Board will approve a state system provided that it meets the following requirements:

1. Benefits must be paid through public employment offices in the state, or through other agencies approved by the state.

2. Benefits may not be payable in a state until its plan has been in effect at least two years. (This regulation was made in order to build up an ample fund before benefits could be claimed.)

3. All contributions collected are to be deposited with the Unemployment Trust Fund of the United States Treasury.

4. Withdrawals from the Unemployment Trust Fund may be used only for the payment of unemployment insurance benefits. No part may be used for administrative expenses.

5. Benefits may not be denied any eligible person for refusal to accept work under the following conditions:

a. If the position is vacant because of a strike, lockout, or other labor dispute.

b. If the wages, hours, or conditions of work are substantially less favorable to the individual than those prevailing in the locality.

c. If the individual would be required to join a company union or to refrain from joining any bona fide labor organization.

6. The state must retain the right to repeal or amend its law.

Approval of a state system by the Social Security Board may be revoked at any time that amendments or changes in a state plan result in failure to comply with the foregoing conditions.

As indicated by the foregoing provisions, the Federal government does not prescribe conditions with respect to amount of benefits, duration of benefits, employee contributions, waiting period, etc., and the protection afforded the worker may vary considerably in different states.

The money collected by the states under their unemployment insurance acts is deposited in the Unemployment Trust Fund of the United States Treasury, subject to withdrawal by the states for payment of benefits. A separate fund account is kept for each state. The trust fund is invested in interest-bearing obligations of the United States Government.

In addition to the Federal tax and the tax credit offset provided in the law to remove the obstacle in the path

of state legislation, the Social Security Act further encourages state legislation by grants of funds with which to administer their unemployment insurance legislation. The law does not permit contributions to the Unemployment Trust Fund to be used for administrative purposes.

The funds to be granted to each state are to be determined by the Social Security Board, taking into consideration the population of the state, the number of persons covered by the system established in the state, the cost of administering the particular system, and any other relevant factors. Funds available to the Social Security Board for this purpose must be authorized by an appropriation of Congress. For the year ending June 30, 1936, the Federal appropriation authorized was $4,000,000, and for fiscal years thereafter is set at $49,000,000.

A state to be eligible for Federal grants for administrative purposes must have a state law approved by the Social Security Board. It must have methods of administration approved by the Board in order to insure full payment of benefits when due. Payments of benefits must be made through public employment offices or other agencies approved by the Board. Provision for an impartial tribunal for the hearing of cases in which benefit is denied must be made in the state law. Also, in order to receive these grants, the state is required to make reports containing such information

as the Social Security Board may require from time to time, and must furnish to any Federal agency administering public works or assistance through public employment, the name, address, occupation, employment status, and rights to further compensation of each recipient of unemployment compensation. Grants to a state may be suspended by the Social Security Board, after a hearing, if the state fails to comply with any of the foregoing conditions or if it appears that a substantial number of persons entitled to benefit are being denied it.

Types of Funds[1]

The Federal law permits at least four different types of unemployment funds to be established by the states. Combinations of these are also possible. These four general types are:

1. Pooled fund.
2. Individual employer reserve accounts.
3. A pooled fund with merit rating.
4. A guaranteed employment account.

There has been and still is much difference of opinion as to which of the above types of fund is the most desirable. The straight pooled fund system is one in which all contributions are put into a single fund and benefits are paid out of the fund to those eligible for benefits regardless of by whom they have been employed. This is the

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[1]U. S. Government, Bureau of Unemployment Compensation, Circular No. 5, 1936, pp. 8-10.

type of fund established in both England and Germany. A pooled fund provides for the spreading of the risks of unemployment over a whole state and benefits are in no way dependent on reserves created by an individual concern. It affords greater protection to the worker, but is objected to by many because it results in the use of the contributions of employers and employees with good employment records to finance benefits paid to workers in less stable industries. To many who believe in unemployment insurance, not strictly as insurance, but as a mutual assistance plan, this feature is not an objection but a desirable and necessary element of any unemployment insurance system.

A pooled fund with merit rating is a plan providing for lower rates of contributions to the state unemployment fund for employers with good employment records. Its purpose is to encourage employers to stabilize employment within their concerns. The unemployment fund, under such plans, is a single pooled fund, from which benefits are paid to all the eligible unemployed within the state, regardless of the amount contributed to the fund by the individual employer. Separate accounts are maintained for each employer for the purpose of permitting reductions in the rate of contribution to those employers whose reserve--difference between contributions made and benefits paid out--has accumulated to a certain per cent of his payroll. The separate accounts

under this plan are simply a bookkeeping device for the purpose of merit rating. Employees in a concern with irregular employment may draw from the unemployment fund more than the contributions on the part of that concern because the fund itself is a single pooled fund. Their employers, however, will pay a higher rate of contribution to the fund than will employers in concerns where employment is more regular.

Merit rating is a plan devised to meet the objections of those who believe it unfair that concerns providing regular employment bear a considerable share of the cost of providing benefits to employees of concerns with poor employment records. It is believed, moreover, that merit rating plans will tend to make the individual employer do all in his power to stabilize employment in his concern.

A third type of fund provides for individual employer reserve accounts. Funds under this plan are segregated under the names of the individual employers, and payments of benefits are made to employees out of the funds of their individual employers. Under this plan, a worker is dependent upon the fund segregated in the name of his employer, and when that is exhausted, he can receive no more benefits. This type of fund does not provide the employee, particularly the employee in a concern with irregular employment conditions, with as much protection as a pooled fund.

Guaranteed employment accounts are also permitted. Under a guaranteed employment plan, the employer guarantees a certain number of weeks of employment in a year.

Constitutionality of the Act

With the passage of the Social Security Act in 1935, the battle for social security in the United States was only half won, for the various sections of the act had still to face the question of constitutionality. The Supreme Court is given the right to make decisions, in the event of a law being challenged, upon the question of whether an act is within the powers granted to the Federal government under the Constitution. There is no provision in the Constitution either expressly forbidding or expressly allowing the Federal government to legislate on matters pertaining to social security. The framers of the Constitution could make no such provisions, as programs for social security were non-existent at the time of the adoption of the Constitution. Such a bill as the Social Security Act is dependent upon the broad interpretation of the general powers of the Federal government under the Constitution, and must not infringe upon the sovereign powers of the states. The difficulty of meeting the test of constitutionality was one of the main reasons for providing in the Social Security Act a tax-offset system for encouraging state unemployment insurance legislation, rather than attempting to provide a nation-wide

unemployment insurance law or a system providing for the return to the states of the tax on employers through subsidies to states passing unemployment compensation laws.

The constitutionality of the sections of the Social Security Act dealing with unemployment insurance were upheld by the Supreme Court in a five to four decision rendered on May 24, 1937. The test case was brought by the Charles C. Steward Machine Company of Alabama.[1]

Effect of the Federal Act on State Legislation

The passage of the Social Security Act, with its provisions for a tax on employers and a tax credit for employers in states having unemployment insurance systems, had the desired effect of bringing about the passage of such laws. By June 30, 1937, all forty-eight states, the District of Columbia, Hawaii, and Alaska had passed unemployment insurance laws that were approved by the Social Security Board.

State Legislation

Under the provisions of the Social Security Act, the individual states were left free to determine what kind of unemployment insurance laws they desired. The Federal act, as we have seen, permits several different types of funds, and establishes no requirements with respect to such important matters as employee contributions, state

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[1] Monthly Labor Review, July, 1937, pp. 179-180.

contributions, amount, duration, or employment qualification for benefits, and waiting period. The protection afforded the worker in the different states, therefore, varies considerably.

Provisions of the unemployment laws of three states, New York, New Jersey, and Wisconsin, are given in this study as examples of the legislation that has resulted from the passage of the Social Security Act. The selection of these three states was made in order to illustrate a system with a pooled fund, a pooled fund with merit rating, and an employer-reserve type of fund.

State of New York[1]

The New York unemployment insurance law provides for the establishment of a pooled fund. In all probability, however, merit rating will be introduced in the near future. The law covers employers of four or more employees within each of thirteen weeks, thus covering a larger group than the Federal tax on employers, which is limited to employers of eight or more employees within each of twenty weeks.

Excluded from coverage are employment in agriculture, domestic service in a private home unless at least four such persons are employed within each of thirteen weeks, employment of husband or wife or minor child, employment by any governmental subdivision, employment in any non-profit

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[1]Social Security Board, Analysis of State Unemployment Compensation Laws, 1937, pp. 14-15.

religious, charitable, scientific, literary, or educational organization. Persons engaged in non-manual labor receiving more than $2600 a year or $50 a week are excluded from contribution basis and benefits, but are included in determining whether the employer is subject to the law under the four-employee provision.

Contributions to the pooled fund are based on payrolls at the rate of 1 per cent in 1936, 2 per cent in 1937, and 3 per cent in 1938 and thereafter. No contributions are made by employees or by the state.

Benefits under the plan are fifty per cent of wages, with a maximum of $15 and a minimum of $5 a week. Benefits are payable in the ratio of one week of benefit to fifteen days of employment within the preceding year, with a maximum of sixteen times the weekly benefit amount within a year. In order to qualify for benefits, ninety days' employment within twelve months or 130 days within twenty-four months is required. A waiting period of three weeks, but not more than five weeks, is provided by the law. Benefits are payable only to persons unemployed through no fault of their own and refusal to accept suitable employment acts as a disqualification. In the case of discharge for misconduct or loss of position because of a trade dispute, the waiting period is extended to ten weeks. Payment of benefits and placement of workers is in the charge of state employment

offices. The manager of the local state employment office passes on claims for benefits. A board of appeals composed of three members appointed by the governor of that state makes decisions on disputed claims.

State of New Jersey[1]

New Jersey is an example of a state having a law providing for a pooled fund with separate employer accounts for merit rating only. Its law applies to employers of eight or more employees within each of twenty weeks, the same employers who are included under the tax provisions of the Federal act. It excludes from coverage, agricultural labor, domestic service in a private home, employment on vessels on navigable waters, employment for child, husband, or wife, and by child under twenty-one for parent, government employment, and employment in non-profit religious, charitable, scientific, literary, educational, or humane organizations. No exclusions are made on the basis of earnings.

Contributions by employer, based on payroll, are 0.9 per cent for 1936, 1.8 per cent for 1937, 2.7 per cent through 1941, and merit rating from 1941 on. Contributions of 1 per cent are made by employees beginning in 1938. New Jersey is one of the few states requiring employee contributions. No state contributions are made.

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[1]Ibid., pp. 12-13.

The provisions of the law in New Jersey with respect to merit rating are representative of the merit rating systems adopted in the majority of states. Merit rating begins after 1941. The employer whose separate employer account shows a reserve of 7.5 to 10 per cent of payroll will contribute 1.8 per cent of payroll; the employer whose account shows a reserve of 10 per cent or more will contribute 0.9 per cent. These lowered rates of contribution are, however, subject to the condition that contributions of less than 1.8 per cent may not be permitted unless the assets of the insurance fund are twice the amount of total benefits, and contributions of less than 2.7 per cent may not be permitted unless assets of the insurance fund exceed the benefits paid in the preceding year. The employer whose account shows benefits in excess of contributions for all past periods, or for the past ten years, whichever is to the advantage of the employer, must contribute to the fund at the rate of 3.6 per cent of payroll. In this way, the employer whose employees withdraw over a period of time more than the contributions made in their behalf is made to bear a higher proportion of the total cost of the system than the employer with a good employment record.

Benefits under the New Jersey law are 50 per cent of wages, the maximum being set at $15 a week and the minimum at $5 a week, or three-quarters of wages, whichever is lower.

The duration of benefits is limited to sixteen times the weekly benefit within a year, or one-sixth of the wages earned during the first four of the last five quarters, whichever is lower. In order to qualify for benefit, the worker must have earned total wages of sixteen times the benefit amount within four of the last five calendar quarters. The waiting period is two weeks in thirteen weeks, with a maximum of five weeks in a year.

Workers are disqualified for benefits through discharge for misconduct in the week in which discharge occurs and in the three following weeks, in addition to the waiting period. These same conditions apply in the case of voluntary loss of employment and refusal to accept suitable employment. Benefits are not paid in weeks in which unemployment is due to trade disputes, unless the worker does not belong to the class of employee participating in, fanancing, or directly interested in the labor dispute.

Payment of benefits and placement of workers is administered through state employment offices. Provision for hearings of disputed claims by an appeal tribunal is made. In addition, cases may be further appealed to a board of review.

Payments of benefits in New Jersey begin on January 1, 1939.

State of Wisconsin[1]

Wisconsin was the first state to pass an unemployment compensation law, having passed its law in 1932, three years before the passage of the Social Security Act. The law, however, did not become effective until July 1, 1934, as a provision was incorporated in the law to the effect that if a sufficient number of employers established voluntary plans by 1934, the law would not become effective. Benefits have been payable since July 1, 1936.

Wisconsin's legislation provides for separate employer-reserve accounts. This type of unemployment plan is usually referred to as the "Wisconsin Plan" of unemployment insurance compensation. Under the employer-reserve type of fund, contributions are collected only from employers and are segregated in separate employer accounts. Payment of benefits is made to the employee out of the fund accumulated in the name of his individual employer. Wisconsin employers consequently pay benefits only to their own employees.

The law has been amended somewhat since its passage in 1932. At present, employers of eight or more employees within each of eighteen weeks are covered by the law. Exclusions from coverage are given to the following employments: agriculture; domestic service; governmental work relief projects; elected or appointed public officers; government unit employment on an annual salary basis; teachers in private

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[1]Ibid., pp. 22-23.

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[1]Ibid., pp. 22-23.

and public schools; employment covered by an unemployment compensation act of Congress; logging; and non-profit educational, charitable, religious, scientific, literary, or humane organizations.

Contributions provided by the Wisconsin law are 2 per cent through 1937. After 1937, the standard rate is 2.7 per cent, with merit rating provided. Under the merit rating, rates are reduced after 1937 to 1 per cent for employers whose accounts have a reserve of 7.5 to 10 per cent of payroll, and no contributions are required of employers having a reserve of 10 per cent or more. Maximum rates, dependent on employer's reserve, may be as much as 3.2 per cent in 1939, 3.7 per cent in 1940, and 4 per cent in 1941 and thereafter.

Benefits under the plan at present are 50 per cent of wages with a maximum of $10 if wages are less than $25 a week; $12.50 if wages are between $25 and $30; and $15 if wages are $30 or more. The minimum benefit payable is $5 a week.

Wisconsin's law contains a provision with respect to duration of benefits that is not found in other state laws. Benefit duration varies with the benefit rate. One week of benefits to four weeks of employment within a year is given when the benefit rate is $10 a week; one week of benefits to five weeks of employment when the benefit rate is $12.50;

and one week of benefit to six weeks of employment when the benefit rate is $15 a week. Four weeks employment by a given employer qualifies the worker for benefits.

The waiting period is three weeks per employer within fifty-two weeks. No benefits are paid to an employee discharged for misconduct from the account of the employer who discharged him. An employee discharged is moreover ineligible for benefits from accounts of previous employers in the week in which discharge occurs and in three following weeks in addition to the regular waiting period of three weeks.

An employee is ineligible for benefits while a trade dispute is in progress in his place of employment. An employee voluntarily leaving his employment may not obtain any benefits from the account of the employer he left, nor may he obtain benefits from the accounts of previous employers unless he left to accept other employment. Refusal of suitable employment disqualifies the employee from receiving any benefits based on past employment.

Benefits are payable through state employment offices operated under a state industrial commission. Disputed claims are presented before an appeal tribunal consisting of an examiner or commissioner, and employer and employee representatives. The industrial commission may review the claim.

Wisconsin was the only state where payments of benefit began prior to January 1, 1938. The first payments were made in August, 1936. By July 31, 1937, a total of $1,049,882.83 had been paid out in benefit checks to 51,619 workers, and a reserve fund balance of $24,729,627.84 remained on hand.[1]

The Wisconsin plan offers less protection to the worker than either the straight pooled fund or the pooled fund with merit ratings. It is based upon the principle of encouraging stabilization of employment, rather than providing the maximum of protection to the unemployed worker. It is fortunate that only one state, Utah, has copied Wisconsin's pioneer law.

Analysis of State Legislation

Type of Fund

Thirty-two states, the District of Columbia, Alaska, and Hawaii, have pooled funds with merit rating. The laws of nine states provide for pooled funds without merit rating, two, Utah and Wisconsin, for employer-reserve accounts, and four combine employer-reserve accounts with a pooled fund. In one state, Vermont, employers are given a choice of separate reserve accounts or participation in a pooled fund.[2] New York and Georgia, now having pooled funds, are making

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[1] How First Job Insurance Works, Business Week, July 31, 1937, p. 25.

[2] All statistics were compiled by the author from the state laws as found in Unemployment Insurance Service, Commerce Clearing House, Inc., Vols. 1-4, 1937-1938, and Analysis of State Unemployment Compensation Laws, Social Security Board, 1937.

studies of merit rating with the expectation of adopting it in the near future.

From the foregoing statistics, it is clear that legislation in the United States has not followed European precedent. Both Germany and Great Britain have straight pooled funds, while in the United States, the trend is away from straight pooled funds, and it is likely that in the near future, no states will have this type of fund.

It is encouraging to note that few states have based their legislation on the pioneer system of Wisconsin, which provides for separate employer-reserve accounts. Unemployment compensation laws providing for such separate employer-reserve accounts are based on the principle that the purpose of laws in this field is to encourage the stabilization and regularization of industry, rather than to provide security for the worker. Proponents of social insurance do not look upon such systems as unemployment insurance as they do not provide for the spreading of the risks of unemployment over all industries. Workers in concerns and industries in which employment is irregular or which are quickly affected by depressions--the very ones who need the greatest protection against the misfortunes of unemployment--in fact receive the least possible protection under such systems. They have no claim when their individual employers' accounts have been exhausted. Moreover, under our present productive system, most of our unemployment is due to causes beyond the control of the individual concern, and therefore the main objective of social insurance should

be security for all employees, rather than the stabilization of employment in individual concerns.

Pooled funds with merit rating is apparently the form in which unemployment insurance is most acceptable to America today, as evidenced by the fact that thirty-two states have adopted this form and several others are considering its adoption in the near future. This type of unemployment insurance fund does provide the worker with the security of a pooled fund while at the same time it offers some inducement to the employer to stabilize employment. The principle of varying employers' contributions somewhat in relation to employment record is not original with America. England's first unemployment act passed in 1911 contained a provision permitting a refund to the employer of one-third of his contribution for each workman he had employed steadily throughout the year. This provision was abandoned in 1920 because it was felt that the effect on stabilization of employment was not of sufficient importance to justify the administrative detail necessary.

Merit rating is a subject on which there is not general agreement on the part of proponents of social legislation. W. H. Beveridge, Director of the London School of Economics and Political Science, an eminent British authority on the subject of unemployment insurance, has long advocated the adoption in England of some means of "charging industries and employers, not in proportion to the employment given by them, but in proportion to unemployment, or to the tendency

of their methods to bring it about."[1] Great Britain, to date, however, has not introduced such methods of determining contributions. In opposition to the point of view expressed by W. H. Beveridge and others, Abraham Epstein, an earnest worker for social legislation in the United States, writes:[2]

> "Social insurance is insurance even if not a penny of the funds are derived directly from the beneficiaries or from industry. A social insurance fund is solvent even if part or all of its funds come from general taxation. What matters in social insurance is that the risk be distributed as widely as possible, that those who suffer most shall not be made to bear the heaviest burden, and that relief be given as a matter of right in a dignified and self-respecting manner. Social insurance seeks not to stay in the insurance business but to accomplish the 'socially desirable' things."

It is possible that merit rating systems can be made successful. The funds collected under such systems, however, will not amount to as much as under a straight pooled system and thus may prove inadequate to meet the claims made upon them in periods of depression.

Coverage

Unemployment insurance laws apply to employees of one or more persons in the District of Columbia and nine states--Arkansas, Delaware, Idaho, Michigan, Minnesota, Montana, Nevada, Pennsylvania, and Wyoming; in two states--Arizona and Ohio--to employers of three or more persons; in six states--Kentucky, New Hampshire, New York, Oregon, Rhode Island, and Utah--to employers of four or more; in one state,

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[1] Beveridge, William H., Unemployment: A Problem of Industry, 1930, pp. 411-412.

[2] Epstein, Abraham, Insecurity, A Challenge to America, 1936, p. 319.

Connecticut, to employers of five or more; and in the remaining thirty states, to employers of eight or more.[1] Thus only eighteen states and the District of Columbia have passed laws which are broader in scope than the Federal act makes necessary, for the Federal tax against which the tax credit may be claimed is levied upon employers of eight or more persons.

Employments excluded from coverage by state acts are in general the same as the employments excluded from the Federal tax--agriculture, domestic service, public employment, employment in non-profit institutions, and employment of certain relatives.

Coverage of the state laws is adequate for the present, and it is probable that in time more workers will be brought under the protection of unemployment insurance laws. England in 1935 brought her agricultural laborers under the unemployment insurance system, and it is to be hoped that some provision will be made in our state legislation to include our agricultural labor in the future. Extension of coverage to firms employing fewer than eight persons in those states not already providing such coverage is also desirable, but probably unlikely in the near future in view of the Federal minimum of eight persons established for the purpose of the tax on employers.

Contributions

Insurance funds may be provided by employers,

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employees, and the government. In Great Britain, contributions are made in equal amounts by these three groups, while in Germany, only the employers and employees contribute. The United States has not, however, followed European precedent in this respect. The main source of insurance funds under state legislation in this country at present is contributions by employers, only ten states requiring contributions by employees. The states requiring employee contributions are: Alabama, California, Idaho, Indiana, Kentucky, Louisiana, Massachusetts, New Hampshire, New Jersey, and Rhode Island. The contribution of the employee is in most cases 1 per cent of wages. Massachusetts and Rhode Island, however, require a contribution of 1.5 per cent after 1938, and Idaho fixes the employee's contribution at one-half of the employer's contribution. In none of the forty-eight states is any provision made for a contribution by the state.[1] The District of Columbia, however, provides for a government contribution of $100,000 in 1936, $125,000 in 1937, and $175,000 in 1938.[2]

In general the amount contributed by the employer from 1938 on is 2.7 per cent of payroll, subject to reduction through merit rating.[3] The 2.7 per cent permits the employer the maximum tax credit offset against the Federal tax. Such offset may be taken even though the employer pays less than 2.7 per cent because of the merit rating system of his state. This is possible because the Federal act provides that after 1937 additional credit is allowed any employer "who because

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[1] Ibid.
[2] Ibid.
[3] Ibid.

of favorable employment experience or adequate reserves is permitted by the state law to reduce his payments."[1] The employer paying less than 2.7 per cent because of the merit rating system in his state is thus permitted to deduct from his Federal tax a credit of 2.7 per cent.

Benefits[2]

The amount of weekly benefits payable varies in the individual states. Twenty-six states provide benefits of 50 per cent of wages, with a maximum weekly benefit of $15, and a minimum of $5 or three quarters of weekly wages, whichever is less. In three states, Delaware, Massachusetts, and New York, similar benefits are provided except that a straight $5 minimum is established. Minimums of $6, $7, and $8, usually with the qualification that the benefit may not be more than three quarters of weekly wages, are provided in other states. Three states, Alabama, Mississippi, and Ohio, and the District of Columbia, specify no minimum. Wyoming, with a maximum weekly benefit of $18, and Michigan, with a maximum of $16, are the only states setting maxima of other than $15.

Duration of Benefits[3]

Duration of benefits under all the states laws is dependent on the number of weeks of employment. In most

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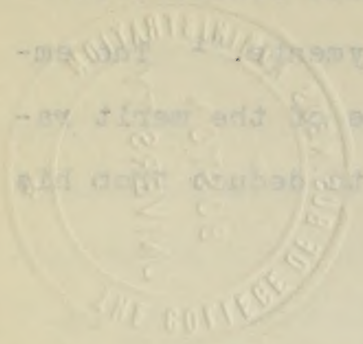
[1]U. S. Government Printing Office, Summary of Provisions of the Federal Social Security Act Relating to Unemployment Compensation, 1936, p. 1.

[2]All statistics were compiled by the author from the state laws as found in Unemployment Insurance Service, Commerce Clearing House, Inc., Vols. 1-4, 1937-1938, and Analysis of State Unemployment Compensation Laws, Social Security Board, 1937.

[3]Ibid.



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Duration of benefits under all the states laws is dependent on the number of weeks of employment. In most

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[1]U. S. Government Printing Office, Summary of Provisions of the Federal Social Security Act Relating to Unemployment Compensation, 1935, p. 1.

[2]All statistics were compiled by the author from the state laws as found in Unemployment Insurance Service, Commerce Clearing House, Inc., Vols. I-4, 1937-1939; and Analysis of State Unemployment Compensation Laws, Social Security Board, 1937.

[3]Ibid.

states one week of benefit is paid for each four weeks of employment within the preceding two years, with a maximum set for the number of weeks of ordinary benefit possible in fifty-two weeks. This maximum is between twelve and sixteen weeks in a year in most states, though Rhode Island sets a maximum of twenty weeks. Additional weeks of benefit are payable in the District of Columbia and the following twelve states: Alabama, Arizona, California, Idaho, Louisiana, Massachusetts, Mississippi, New Hampshire, Rhode Island, South Carolina, Texas, and Utah. These additional weeks of benefit in most cases are in the ratio of one additional week of benefit to twenty weeks of employment in the past five years against which benefits have not been charged. A maximum varying from eight to ten weeks in fifty-two weeks is set for these additional benefits. Thus in states having a very liberal law, an unemployed worker who has been steadily employed for five years would be eligible for approximately twenty-two to twenty-six weeks of benefit within a year (twelve to sixteen weeks of ordinary benefits plus eight to ten weeks of additional benefits) while in states making no provision for additional benefits, a worker under the same circumstances would be eligible for only twelve to sixteen weeks of ordinary benefit.

Qualification for Benefit[1]

A wage or employment qualification for receipt of benefits is included in the laws of almost all states.

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[1]Ibid.

The unemployment qualification varies from sixty days of employment in fifty-two weeks to twenty-six weeks of employment in fifty-two weeks. A common wage qualification, in those states having a wage rather than an employment qualification, is that total earnings in the first four of the last five quarters shall be sixteen times the weekly benefit amount.

A waiting period of two weeks is required in twenty-eight states and of three weeks in twenty states.

Disqualification for Benefit[1]

In most states workers are ineligible for benefit while unemployed because of labor disputes.

The waiting period is prolonged in most states in cases of discharge for misconduct, voluntary leaving, or refusal of suitable work. In Wisconsin, however, where the employer-reserve system is in effect, a discharged worker can receive no benefits from the reserve account of the employer discharging him. The Wisconsin law also provides for the cancellation of all benefit rights of an employee refusing suitable employment or voluntarily leaving his employment unless he left to take another position. If the employee left to take another position, he is eligible for benefits only from accounts of employers other than the one he left voluntarily. It is fortunate that only one state, Utah, has modeled its insurance law on that of Wisconsin, as such provisions can be abused, and even if not abused, are

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[1]Ibid.

disadvantageous to the employee. An employee would hesitate to leave the employment of an establishment for which he had worked a long time in order to take another position because by so doing he would lose all claim to benefits from that employer's reserve account.

Administration[1]

In general, the administration of the unemployment insurance is entrusted to a special unemployment compensation commission, whose members are usually appointed by the governor of the state. State employment offices are the medium through which claims for benefit are made. Decisions on benefits are made by the employment office manager. All states provide for some form of appeal board to decide upon disputed claims. In the case of further dispute, claims may be carried to the courts, though in some states only questions of law may be brought into the courts.

One state, Wisconsin, has been paying benefits under an unemployment compensation law since July 1, 1936. Unemployment insurance systems began operations on January 1, 1938, in twenty-one other states and in the District of Columbia.

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[1]Ibid.

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[1] Ibid.

CHAPTER V

COMPARISON OF UNEMPLOYMENT INSURANCE IN GREAT BRITAIN, GERMANY, AND THE UNITED STATES

In Great Britain unemployment was and is believed to be to a large extent beyond the control of either the employer or the employee, and it was therefore felt that the main purpose of unemployment insurance must be to provide subsistence benefits as a right to the unemployed worker. It was also felt that the cost of such benefits should be borne not only by employers and employees, but by the country as a whole, and consequently Great Britain's system is a tri-partite one, equal contributions being made by the employee, the employer, and the state. In Germany, on the other hand, the law requires contributions from employers and employees only. Actually, the state did contribute in the form of loans which will never be paid. In the United States, however, we find a somewhat different attitude toward unemployment insurance. The tendency in this country is to look upon unemployment as a problem of industry, and not a problem of society as a whole. This is evidenced by the fact that contributions are levied solely on employers in most states, only ten states providing for employee contributions, and no states providing for contributions by the state government. This attitude is also reflected in the

CHAPTER V

COMPARISON OF UNEMPLOYMENT INSURANCE IN GREAT BRITAIN, GERMANY, AND THE UNITED STATES

predominance of merit rating systems in our legislation. The avowed aim of such systems is to stabilize employment by reducing the contributions of firms having a good employment record.

In Germany, the insurance system is still operating today on a relief basis, only six weeks of benefit being granted without a needs test. Great Britain, on the other hand, has definitely segregated insurance and relief by providing two separate systems under the Acts of 1934. The insurance system in Great Britain provides twenty-six weeks of benefit in a year as a matter of right based on contributions. Additional weeks of benefit, in the ratio of three additional days of benefit for every five contributions in the past five years, less a deduction of one day of benefit for every eight days of benefit received, are granted. Great Britain's unemployment assistance system, entirely separate from the insurance system, is a national non-contributory relief organization providing unemployment allowances to those in need. Through the segregation of insurance and relief, Great Britain has established the unemployment insurance fund on a solvent and self-supporting basis. In the United States, present state legislation has benefited from Great Britain's experience, and has established insurance benefits entirely separate from relief and welfare support. Duration of benefits under our state

systems vary greatly in the individual states, but in general benefits are payable for a much shorter time than in Great Britain. Benefits in this country are under most state laws limited to from twelve to sixteen weeks, with some states providing additional weeks of benefit based on employment records for the preceding five years. It is probable that, even in the event of a severe depression, the state insurance systems of this country will be maintained on an insurance basis and will not degenerate into relief systems.

Benefits in Great Britain are intended to provide a subsistence, and are based on the flat rate idea. The same benefit, except for slight variations for age groupings, is paid to all unemployed workers regardless of earnings. Allowances for dependents, however, are made. In Germany, provision of benefit rates at a minimum subsistence level is also provided. Germany, however, has varied the benefits according to wage groups, and in recent years according to place of residence. Cost of living has therefore entered into the determination of rates of benefit in Germany, and is one of the indications of a relief rather than an insurance system. Allowances for dependents are also given in Germany. In the United States, both contributions and benefits are based on earnings, and no allowances are made for dependents. Most states provide benefits at the rate of

50 per cent of average weekly wages, and in general benefits will tend to be higher than a bare subsistence level.

In Great Britain, the waiting period is only three days under the amending act of 1937. The waiting period is very short because few workers in Great Britain are able to maintain themselves for any length of time if unemployed. In Germany, the waiting period is fourteen days for a person without dependents, seven days for persons with one to three dependents, and three days for persons with four or more dependents. In this country the waiting period varies in the individual states, but all states require a waiting period of two or three weeks, benefits being paid at the end of the third or fourth week of unemployment. The longer waiting period in this country is possible because workers here can survive a few weeks of unemployment better than German and British workers. It is also made necessary because the funds available for benefits in this country are limited through being collected only from employers in most states.

In general, provisions with respect to qualifications for benefits are similar in the three countries. The unemployed individual must be willing and able to work, and must accept suitable employment offered to him. Voluntary leaving or discharge for misconduct increase the waiting period. Unemployment caused by labor disputes is not compensated for by insurance benefits.

The coverage of the insurance system varies in the three countries. Great Britain includes under her system practically all workers fourteen years of age and over, even including agricultural workers since the passage of the Act of 1935. Private domestic service, non-manual employment at a remuneration of more than £250 a year, and employment in government positions are the main exclusions. In Germany, the coverage is similar except that agricultural labor is not covered. Coverage varies in the United States, but in general is not so inclusive as in Germany or Great Britain. Thirty state laws apply only to employers of eight or more. Other state laws apply to employers of one, three, four, or five employees. A large number of workers in small establishments are thus excluded from coverage under our state laws. As the Federal tax applies only to employers of eight or more, it is unlikely that state laws will extend their coverage very much in the near future. Agriculture, domestic service, public employment, and employment in non-profit institutions, are not covered by state insurance laws.

In both Great Britain and Germany, a national pooled fund is used. In the United States, thirty-two states have pooled funds with merit rating and other states with pooled funds will in the near future adopt merit rating. The use of a merit rating system limits considerably the accumulation of large reserves for use during periods of severe

depression, and is probably not as desirable as straight pooled funds.

With respect to the administration of unemployment insurance, our state systems have in general been modeled along the lines of those of Great Britain and Germany. Unemployment insurance is administered through the employment exchanges in Great Britain and Germany. All of our state systems provide for the use of state employment offices in the determination and payment of claims for benefit.

In general, the state unemployment insurance systems in the United States are not at present as liberal as Great Britain's with respect to coverage, duration of benefits, and waiting period, but are more liberal with respect to amount of benefits. Great Britain, however, has worked out her system over a period of twenty-seven years, and our state unemployment insurance systems will have to develop gradually over a period of years.

CHAPTER VI

C O N C L U S I O N S

The experience of both Great Britain and Germany indicates that the greatest danger to be guarded against in any unemployment insurance system is that of allowing the insurance system to degenerate into a relief system. Great Britain was forced to use the insurance system as a vast relief system during the years from 1927 to 1934 in order to care for all of her unemployed during a period of abnormal unemployment. The experience of those years, however, resulted in the complete separation of the insurance system from the relief system in 1934. In order to maintain a solvent and self-supporting fund, and to pay benefits to insured workers as a matter of right and not charity, it is essential that the insurance system be used solely as a method of meeting the problem of short-term unemployment. On this basis, unemployment insurance can take care of ordinary unemployment in normal times and can take care of the unemployed during the early stages of a business depression. The payment of large amounts of benefits to the unemployed at the beginning of a recession in business, thereby maintaining their purchasing power, may be expected to lessen the severity and duration of a depression.

Unemployment insurance, however, cannot solve the whole problem of unemployment. Even during normal times,

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there is a considerable amount of chronic and long-term unemployment which cannot be provided for by insurance. Workers who are unemployed for a long time are unable to meet the employment or wage qualifications for eligibility to insurance benefits. Harry L. Hopkins, Federal Relief Administrator, estimates that we shall have a permanent body of unemployed of at least 4,000,000 in this country.[1] In addition, during a depression, workers eligible to insurance benefits will exhaust their rights to benefits during the early stages of the depression. Some means of caring for both of these groups outside of the insurance system is necessary. Great Britain has solved this problem by creating a national non-contributory unemployment assistance system which provides benefits to unemployed persons in need. In the United States, the limitations of unemployment insurance must be recognized, and separate provision must be made for those who do not come under the insurance system or who have, through prolonged unemployment, exhausted their rights to benefits.

Present legislation in this country has in general made reasonably satisfactory provisions for short-term unemployment for those who are covered by the legislation. Duration of benefits, in most states ranging from twelve to sixteen weeks in a year, is quite limited, and it is to be hoped that in the future legislation will provide for

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[1] Hopkins, Harry L., Permanent Unemployment of at Least 4,000,000, Commercial and Financial Chronicle, May 29, 1937, p. 3603.

benefits over a longer period of time. In order to provide longer benefit periods, it is desirable that state legislation should provide for employee contributions. This is desirable, not only because of the possibility of increasing the length of time for which benefits are payable, but because of the psychological effect on the insured worker. As a contributing member of the system, the worker is more likely to feel that unemployment insurance benefits are payable to him as a right and his feeling of self-respect is enhanced.

The coverage of our state systems is not as great as in Great Britain, and one discouraging aspect of the status of unemployment insurance in this country is that extension of coverage and liberalization of state legislation in other respects is likely to be long delayed. The Social Security Act, in order to encourage the states to enact unemployment legislation, provided for a Federal tax of 3 per cent on employers of eight or more. It then provided for a credit against this tax of contributions paid by an employer to a state unemployment insurance fund, the credit not to exceed 90 per cent of the Federal tax. This tax-offset device, eliminating the fear of competitive disadvantage among the states, did have the desired effect of bringing about legislation in all states. The Federal act, however, permits states to enact almost any type of legislation. It sets no standards with respect to amount of benefits,

duration of benefits, qualifications for eligibility, and coverage. Therefore most states have included in the coverage of their systems only employers of eight or more. The attempt to avoid placing their employers at a competitive disadvantage with employers in other states is likely to prevent extension of coverage to workers in establishments employing less than eight persons.

Pooled funds with merit rating will probably remain the predominant type of insurance fund in this country. Insurance systems having merit rating plans cannot accumulate as large reserves as those having straight pooled funds. The fact that most states provide merit rating will therefore tend to prevent liberalization of insurance laws in the near future.

In spite of the disadvantages existing under the present Federal and state laws, a step in the right direction has been taken. Unemployment insurance is here to stay and undoubtedly experience in the operation of the state systems will bring about improvements. Present legislation has every prospect of providing successfully a "first line of defense" against unemployment, and has fortunately been kept free from entanglement with a relief system.

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